

# **Standards of Professional Practice**

September 2002

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance.

Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the only UK professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services for our public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance around the world.

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## STANDARDS OF PROFESSIONAL PRACTICE

### FOREWORD

- 1 The International Federation of Accountants ('IFAC') is developing and enhancing co-ordinated worldwide standards for the accountancy profession. CIPFA, as a member of IFAC, is committed to supporting the Federation's broad objectives. One way in which the Institute supports this is by producing Standards of Professional Practice ('SoPPs') for the guidance of its members. For the purposes of this document, **members** are defined as '**Institute members, students and diplomates**'.
- 2 In recognition of the importance of such standards, CIPFA requires all members to comply with each SoPP that regulates an area of their work. **Failure to comply with any relevant SoPP may be regarded as grounds for disciplinary action under the Institute's bye-laws.**

### BACKGROUND

- 3 One of the key responsibilities recognised by IFAC and its member bodies is the acceptance of the public-interest responsibility of the accountancy profession, defined as '*the collective well-being of the community of people and the institutions that the professional accountant serves*'. In support of this responsibility, CIPFA's Standard of Professional Practice on Ethics states that professional accountants have a responsibility to uphold the public interest when carrying out their duties.
  - 4 These SoPPs set standards with which members are required to comply in order to uphold the public interest, ensure the integrity of the work for which they are responsible and to discharge their professional obligations. They are concerned both with professional competencies and with working methods, practices and procedures. As such, they apply to all CIPFA members working in any sector of the economy. Similarly, these SoPPs apply to all members involved with **any** business structure (e.g. charity, joint venture, local authority, partnership, health body, government department, agency), referred to within these SoPPs as an 'organisation'. Finally, they apply to members working in any country; and in that context, the principles of Appendix A11 of the SoPP on Ethics apply equally to each of the SoPPs herein.
  - 5 CIPFA has undertaken that its members will adhere to the standards of the Accounting Standards Board ('ASB') and the Auditing Practices Board ('APB'). In addition, there are other standard-setting bodies (and other types of standards) which need to be observed as the occasion arises. Examples are listed in the Appendix.
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## STANDARDS OF PROFESSIONAL PRACTICE

- 6 CIPFA cannot require organisations to comply with these SoPPs. However, organisations have a direct interest in fulfilling their public-interest responsibilities and in attaining high standards of financial administration. Therefore, it is hoped that all public-services organisations will wholeheartedly and publicly commit their support to their CIPFA members in applying them.
- 7 Members should use their judgement as to the best way of assisting organisations in meeting that objective, bearing in mind the information and resources available to the organisation. Members' judgement will take account of statutory requirements, relevant technical standards and professional requirements, as well as the objectives of the organisation.
- 8 Members should bring to the attention of their organisations a situation which would result in their being unable to meet one or more SoPP(s). In the event that members feel unable to comply with the principles of any SoPP because of the attitude or circumstances of the organisation, they should formally notify their manager and/or director of finance (or equivalent). If the matter is not resolved by this means, members should consult with CIPFA.

### STANDARD OF CARE

- 9 The key principles described in these SoPPs apply to all members (irrespective of seniority within their organisations) when they carry out the tasks and responsibilities covered by the SoPPs. The SoPPs use the generic term '**director of finance**' where the ultimate responsibility for a particular task (aspects of which may be delegated) usually resides with the most senior finance employee within an organisation. In particular, 'director of finance' is used in the context of *responsibility*, while 'member' is used in the context of personally undertaking a duty. **However, the need to exercise due care in carrying out the associated professional or delegated tasks applies to all members involved in the process at whatever level in the organisation.**
- 10 CIPFA recognises that some members, in particular students and recently qualified members, may have less expertise in the areas covered by the SoPPs than members with more experience and seniority. However, acceptance of work of a particular level of complexity or responsibility implies an acceptance to be judged by the appropriate standard laid down by the SoPP, regardless of a member's seniority.
- 11 In recognition of this principle, the Institute Council makes the following statement:

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*All CIPFA members undertaking any professional task shall at all times work to the standards set out in all SoPPs (including the SoPP on Ethics) relevant to the task(s) being undertaken. When members recognise that a task is beyond their experience, technical competence or capability, they must seek appropriate help, advice and guidance from their manager and/or director of finance. The director of finance should take all reasonable steps to ensure that members are appropriately trained for the task(s) to be carried out, are aware of their limitations and of the means of seeking help in case of need.*

*Nevertheless, all members must take it upon themselves to recognise their individual levels of knowledge, experience and competence and to refrain from undertaking any work that would not comply with the key principles described in these SoPPs.*

- 12 CIPFA recognises that the ability of members to effectively discharge their duties is not always wholly within their control. In recognition of this constraint, these SoPPs use 'ensure' where the ability to perform is (or should be) wholly within the control of members, and 'take all reasonable steps to ensure' where members normally would need to rely at least in part on the actions of others to perform their duties.
- 13 Members will, of course, from time to time encounter situations not specifically addressed in a SoPP. This is inevitable in a profession providing such a diversity of financial and accounting services. In such an event, members are advised to use their judgement and to seek appropriate advice in applying the fundamental principles of each SoPP to the particular circumstances of the case. The absence of detailed guidance in a SoPP to a specific situation would not of itself constitute a valid defence against a disciplinary charge brought by the Institute under the relevant byelaws. Neither is the guidance a definitive statement of proper practice that must be followed in all circumstances; it suggests the areas that should normally be considered.
- 14 Other bodies which set standards applicable to some or all members, and the types of standards that they set, are outlined in the Appendix.

### GENERAL PRINCIPLES

- 15 Members should ensure that they:
  - 15.1 Conduct business lawfully, fairly and responsibly.

## STANDARDS OF PROFESSIONAL PRACTICE

- 15.2 Do not use any information for personal benefit or gain.
  - 15.3 Maintain the confidentiality of information except where there is an over-riding legal or professional duty to disclose.
  - 15.4 Provide timely advice with due care and diligence.
  - 15.5 Adhere to the financial regulations of their employing organisations.
  - 15.6 Recognise and act on the need for effective internal controls to provide accountability.
  - 15.7 Keep records which meet legal and audit requirements.
  - 15.8 Deal promptly and impartially with complaints.
- 16 Where members use professional advisors, the final responsibility for discharging professional responsibilities rests with the member.

### FORMAT OF THE SOPPS

- 17 Each SoPP comprises three parts:
- A **Foreword**, setting out the context in which the SoPP is operating.
  - An Introduction, showing:
    - Applicability

A description of which members are the main focus of the SoPP (to be read in conjunction with the section 'Standard of Care' at page 2), and
    - Scope

An indication of the breadth of the SoPP (including relevant definitions);these sections being in each case a *supplement* to the general principles laid out in paragraphs 1-16 above.
  - Objectives

This section sets out the main objectives of the SoPP.
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## STANDARDS OF PROFESSIONAL PRACTICE

- A set of **Key Principles**: in order to achieve the SoPP objectives, members must observe and be seen to observe a number of fundamental principles. These are each accompanied by Guidance Notes to give depth and clarity to those principles.

18 To summarise: any SoPP comprises the general statements in paragraphs 1-16 above together with the particular statements of that SoPP.

### EFFECTIVE DATE

19 These SoPPs supersede any previous SoPPs published by the Institute covering these subject areas. They should be read in conjunction with CIPFA's Standard of Professional Practice on Ethics (December 2000) and are effective from 12 September 2002.



## AUDITING

### FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2. The guidance on objectivity and independence should be considered in conjunction with the separate SoPP on Ethics.
- 2 Ensuring that all audit work, both internal and external, is carried out professionally is important in all parts of the public services and in the private sector. Given public expectations and perceptions this requirement is greatly enhanced where auditors are considering the use of public money.
- 3 The public relies on professional accountants for the integrity of the finance function in its widest sense. This includes a dependence on financial information for:
  - Ensuring efficient and effective use of resources.
  - Demonstrating sound internal control.
  - Assisting in sound management decision making.
  - Demonstrating accountability.

Audit has an important role to play in fulfilling these requirements:

#### **Internal audit**

Review of internal control systems is a key part of the internal audit role and by reporting and following up on weaknesses identified in systems internal auditors help organisations to manage their risks effectively and demonstrate sound financial control, provide information necessary for management decision making and, through reporting to the audit committee or equivalent body, contribute to the corporate governance of the organisation.

#### **External Audit**

External auditors demonstrate the accountability of organisations through statutory audit reports and opinions on financial statements. They also identify system weaknesses and can provide management with information necessary to improve the control environment. By carrying out value for money audits they are able to contribute to the organisation's efficient and effective use of resources.

- 4 Although this SoPP refers throughout to auditors, it also sets down the standards for those CIPFA members who are ultimately responsible for the audit work undertaken.

### INTRODUCTION

#### **Applicability**

- 5 In order to be eligible for appointment as external auditors of certain bodies (including public bodies, companies registered under the Companies Acts, or charities over a certain size) or to undertake particular audit tasks such as the certification of grant claims for grants from government departments and other public bodies, auditors must comply with the specific technical standards (such as Auditing Standards issued by the APB), rules and practices required to be applied in undertaking such audit work.
- 6 Whilst there are currently no auditing standards set by the APB or the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants which are explicitly concerned with internal audit, CIPFA members working in internal audit are expected to comply with the APB Auditing Guideline 'Guidance for Internal Auditors'.
- 7 It should also be noted that, in addition to action being taken against individual members, there are circumstances where action may be taken against an auditor's employing organisation. For example, where an organisation is registered with a supervisory body (e.g. to undertake audits under the Companies Act 1989), non-compliance with standards by an individual may result in regulatory action being taken against the organisation (e.g. withdrawal of registration).
- 8 It should also be noted that compliance with professional practices is likely to be taken into account when the adequacy of the work of auditors is being considered in a court of law or in other contested situations.

#### **Scope**

- 9 This SoPP covers all forms of internal or external audit and whatever form of audit is carried out. The standard is not intended to apply to more limited independent examinations or similar assignments. Whilst the principles employed may often be the same, the scope of engagements for such assignments are not the same as for an audit.

- 10 It is not appropriate for this SoPP to specify what types of systems, processes and records an organisation should maintain. What is included in this guidance, therefore, is an indication of those areas to which an auditor should give attention in the conduct of audit work. Although the precise way in which these areas are dealt with (or not, if the circumstances of the organisation are not relevant) is a matter for local decision, auditors should be able to demonstrate that they have all been considered and acted upon as appropriate.

## Objectives

### *Internal Audit*

- 11 To ensure that the control systems put in place by an organisation's management in response to the assessed risks are audited and reviewed with due integrity, care and professionalism.

### *External Audit*

- 12 To ensure that financial statements, grant claims and other financial documents prepared by an organisation's management and submitted to the auditor are audited and reviewed with due integrity, care and professionalism and having due regard for control systems in place to the extent that is necessary to meet the requirements of the audit or assurance engagement.

## KEY PRINCIPLES

### Objectivity and independence

- 12 **Auditors should ensure that they are objective and operationally independent. Where organisational independence is difficult to achieve, auditors should ensure an independent and objective attitude of mind.**

*Guidance (see also SoPP on Ethics)*

- 13 Objectivity and independence involves:
- 13.1 Having an objective attitude of mind and being in a sufficiently independent position to be able to exercise judgement, express opinions and present recommendations with impartiality.

- 13.2 Being free from conflicts of interest arising from either professional or personal relationships, including both pecuniary and non-pecuniary matters.
- 13.3 Being free from any undue influence that might affect or vary the scope of the audit or the auditor's judgements.
- 14 Auditors should not provide other services to audited bodies which may compromise their independence of that organisation.

*Internal Audit*

- 15 Where internal audit is part of the audited body and so not carried out by an external agency, members acting as internal auditors should display an independent and objective attitude of mind, as they cannot be financially and operationally independent of the audited body. However, organisational arrangements should ensure that independence of internal auditors is not compromised. Internal auditors should be independent from the activities they audit.

*External Audit*

- 16 External auditors (and agencies providing contracted out internal-audit services) should be both organisationally independent of the audited body and display independence of mind.

**Due care and competence**

- 17 **Auditors should ensure they act with due care, competence and professional skill.**

*Guidance*

- 18 Auditors should undertake their work to a level sufficient to demonstrate diligence, competence, care and skill. 'Due care', however, should not be taken to mean infallibility. Auditors will normally provide reasonable assurance regarding the outcome of their reviews, but not an absolute assurance.
- 19 Auditors should ensure that they have undertaken suitable training and development in order to undertake assigned tasks with due skill and care.

- 20 Auditors should ensure that evidence exists to show that due care has been exercised, including a clear demonstration of audit processes regarding the planning, risk analysis, staffing, evidence-taking, evaluation, review and reporting on the assignment.

### **Rigour and sound professional judgement**

- 21 **Auditors should take all reasonable steps to obtain sufficient, relevant and reliable evidence to support their conclusions, and should apply sound professional judgement in assessing such evidence.**

#### *Guidance*

- 22 The application of rigour and sound professional judgement involves:
- 22.1 The efficient and effective planning, controlling and reporting of audit work.
  - 22.2 The determination of what level and quality of evidence is required in the light of the assignment's objectives and the significance of the matters under review.
  - 22.3 The reliability of the evidence in the context of the matters under review.

### **Foster constructive relationships**

- 23 **Auditors should take all reasonable steps to foster constructive professional relationships with management, boards, audit committees, other auditors, and review agencies.**

#### *Guidance*

- 24 Auditors should seek a constructive and professional working relationship with all levels of management within the audited body. However, auditors should ensure that such relationships are viewed and operated in the context of audit independence and do not adversely impact on objectivity.
- 25 Auditors should, as far as possible, co-ordinate their work with other auditors and review agencies to ensure that duplication of audit effort, and the resultant inconvenience (and possible expense), to the audited body is minimised. The relationship between internal and external audit should be seen as key in this

context.

- 26 At an organisation level, the establishment of protocol statements for internal and external audit arrangements is useful in this context. Where such protocols exist, members should ensure that they are followed.

### Confidentiality

- 27 **Auditors should ensure they observe confidentiality, unless they are required or have discretionary powers to disclose information to another party by way of law or regulation.**

#### *Guidance*

- 28 There is a privileged relationship between auditors and management. Auditors must maintain the confidentiality of the information and documentation both received and generated as a result of their interactions with audited bodies.
- 29 Confidentiality arrangements should also cover contacts with other review agencies, who may have different standards of confidentiality.
- 30 In some cases, auditors (and, in particular, external auditors) are required or have discretionary powers to report matters arising from their audit work to external bodies as a result of law or other regulation, e.g. matters that indicate fraud or a breach of the law or regulation. The requirement for confidentiality contained in this SoPP is not intended to circumvent such requirements.

### Further sources of guidance

#### *Internal Audit*

- 31 For local government internal audit, the APB Guideline on internal audit has been interpreted by the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. For members working in central government, the Government Internal Audit Manual applies, as does the NHS Internal Audit Manual for members working in the health service. The Institute of Internal Auditors Inc. has issued international standards and a code of ethics which may give further guidance.

*External Auditors*

- 32 The extent to which auditing standards are applicable will depend on the legal framework within which the auditor operates. However, CIPFA members working as external auditors in the UK are expected to comply with the standards set by the APB. For auditors working within the public sector, the APB's Practice Note 10 (revised) – '*The audit of financial statements for public sector entities in the UK*' – is a particularly relevant source of guidance.
- 33 Similarly for auditors working overseas, the auditing standards of the appropriate standard setting body or the International Auditing and Assurance Standards Board (IAASB) may be applicable.
- 34 Codes of Practice, equivalent Codes of Conduct and Audit Manuals have also been issued by the statutory audit agencies such as the Audit Commission, Audit Scotland, and the National Audit Office that are relevant for external auditors in the sectors covered by those bodies.



## BUDGETARY PLANNING AND CONTROL

### FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
- 2 All organisations need to manage performance so that their financial and strategic objectives are achieved and management and financial stakeholders can be confident in the associated control processes. The proper construction and control of budgets is central to this, to safeguard the organisation's viability and the effective delivery of its objectives. This requires a comprehensive financial planning and approval framework; consistent and rigorous processes for constructing budgets, both capital and revenue; sound methodologies for assessing the financial impact of proposed expenditure; compatibility with other management and performance data, and a control system that sets clear responsibilities and produces prompt and accurate monitoring information on performance against budgets.

### INTRODUCTION

#### **Applicability**

- 3 This SoPP applies to all members involved in the preparation, application, monitoring and supervision of budgets and any other aspect of the budgetary process.
  - 4 The public's reliance on professional accountants for the integrity of the finance function includes a dependence on financial information for:
    - 4.1 Ensuring efficient and effective use of resources.
    - 4.2 Maintaining sound internal control.
    - 4.3 Assisting in sound management decision-making.
    - 4.4 Demonstrating accountability
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4.5 Taking remedial action where needed.

Good budgetary planning and control is key to all these areas.

- 5 This SoPP sets standards with which Institute members are required to comply in order to ensure the integrity of the budgets for which they are responsible and to discharge their obligations to ensure appropriate standards of planning and control.
- 6 Some of the requirements of budget systems and outputs, as well as the responsibilities of the director of finance, will be determined by the legal and regulatory framework within which the organisation has to operate. Where specific professional accounting standards have been developed by recognised standard setting bodies for particular organisations, CIPFA's Ethics SoPP states that members are required also to comply with those standards.

### Scope

- 7 This SoPP covers the entire process of determining the income and expenditure of the organisation for the period under consideration and the subsequent control and monitoring of actual and forecast progress against the authorised budgets.
- 8 It therefore covers multi-year capital and revenue expenditure and income budgets, including the funding of capital investment, and the planning, authorisation, implementation, recording and control of those budgets, whether responsibility is devolved or retained at the centre.
- 9 Most public-sector organisations control their financial processes by reference to annual budgets of expenditure and income, and this SoPP is framed so as to cover those processes. Some organisations may focus performance control on indicators and ratios of financial performance over rolling periods, or on a net financial position associated with production outcomes. In these circumstances, different detailed practical criteria will apply; but sound control still depends on having clear and planned objectives and metrics with which actual performance is routinely compared. The key principles set out below will still be relevant in all the appropriate areas of financial activity.
- 10 The guidance contained in this SOPP has been drawn up so as to be relevant to most sizes of organisation. Members working in small organisations will need to uphold the key principles of the SOPP but adjust their application to the circumstances in which they work.

### Objectives

- 11 To support the deployment of financial, human and physical resources with maximum efficiency, security and accountability in the achievement of the organisation's aims.

### KEY PRINCIPLES

#### Relationship of budgets to the objectives of the organisation

- 12 **Directors of finance should take all reasonable steps to ensure that budgets are planned as an integral part of the strategic and operational management of the organisation and are aligned with its structure of managerial responsibilities.**

#### *Guidance*

- 13 Budgets should be constructed to support the delivery of the organisation's strategic objectives and policies. This involves:
    - 13.1 Multi-year planning of income & expenditure, covering capital expenditure & disposal and the sources & applications of funding.
    - 13.2 Alignment of the construction and approval of the budget with policy planning.
    - 13.3 Construction of the budget analysis in such a way as to be able to identify resources against policies or other appropriate divisions of business activity. This may require more than one analysis and presentation of budget information in order to deal with issues that affect more than one organisational unit or do not match normal authorisation and management structures.
  - 14 Organisations need an integrated planning and monitoring system that facilitates an assessment of progress against, and the effectiveness of, both policies and performance. This involves:
    - 14.1 Mechanisms for feedback from previous and current budgets.
    - 14.2 Inclusion of results of effectiveness studies of whatever kind.
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14.3 Linkages to other management and performance information.

**Consistency, transparency, prudence and accuracy of budgets**

**15 Directors of finance should take all reasonable steps to ensure that budgets are constructed on the basis of reliable data of past performance and rigorous assessments of future resources and commitments, and that policies and priorities are evaluated in an open, consistent and thorough manner.**

*Guidance*

16 Robust budgets require the assessment or forecasting of the following (where applicable to the specific organisation):

16.1 Incoming financial resources:

16.1.1 Taxes.

16.1.2 Grants and subsidies.

16.1.3 Sales, fees and other operating income by class of business.

16.1.4 Donations.

16.1.5 Partnership contributions.

16.1.6 Recurrent and non-recurrent funds.

16.1.7 Investment income.

16.1.8 Loans.

16.2 Cash flows.

16.3 Expenditure commitments on:

16.3.1 Staff.

16.3.2 Property.

16.3.3 Contracts.

16.3.4 Other operating expenses.

16.3.5 Financing costs.

16.4 Variations to service levels arising from:

16.4.1 Strategy and policy changes.

16.4.2 Changes in the volume of activity.

16.4.3 Demographic changes.

16.4.4 Legislation and Government regulations or other externally imposed targets.

16.5 The impact of inflation and taxation changes on levels of income and expenditure.

16.6 Human and physical resources needed to support expenditure plans.

17 The collection, analysis and presentation of this information should be carried out within a planning framework using consistent methodologies that are approved by an appropriate senior finance manager, usually the director of finance or equivalent.

18 The accuracy of budgets depends on the development of appropriate processes, agreed at non-executive level, that are clearly communicated to all parties to the preparation of those budgets and that are consistently and comprehensively applied.

19 To be acceptable, a budget must be compiled in a way that is understood by all those involved. Determination of priorities and decisions on resource allocation normally fall to a board, council or equivalent. Those with that accountability have responsibility for the decisions and their practical consequences. The responsibility of directors of finance is to ensure, by clarity of presentation and quality of communication, that the processes and the options are well known and understood and that risks, uncertainties and the degree of accuracy are made

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clear, so that there is confidence in the system and choices can be made on policies and business outcomes and not technicalities. This requires :

- 19.1 An agreed and rational system for prioritising objectives.
  - 19.2 A rigorous evaluation of alternatives using appropriate financial and management techniques which may include:
    - 19.2.1 Full life-cycle costing.
    - 19.2.2 Discounted cash flow.
    - 19.2.3 Cost/benefit analysis.
    - 19.2.4 Design and feasibility studies.
    - 19.2.5 Assessment of physical resource availability.
    - 19.2.6 Risk assessment.
    - 19.2.7 Market research.
  - 19.3 A consistent application of budget construction techniques, such as:
    - 19.3.1 Base.
    - 19.3.2 Incremental.
    - 19.3.3 Zero base.
    - 19.3.4 Activity base.
    - 19.3.5 Programme.
  - 19.4 The choice as to which approach or mixture of methods to use is a matter of local discretion, but the responsibility of the director of finance is to ensure that there is a clear understanding of the reasons for the choice and the advantages and disadvantages of each of the options. Any changes to the conventions used must be explained, and existing figures re-worked to be compatible. The starting point from which budgets are considered is
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a crucial factor in determining future variations and equality of treatment of competing budgets. A consistent application of the chosen budgeting techniques is fundamental.

- 20 The effectiveness of budgets depends to a great extent on their relevance to the management processes of the organisation. The director of finance should take all reasonable steps to ensure that:
- 20.1 Budget data is compatible with the accounting system of the organisation, and uses common definitions.
  - 20.2 Budget documents are compiled in a manner that facilitates comparisons with the organisation's financial statements and other financial planning and performance reports.
  - 20.3 There is compliance with internal and external regulations and limitations.
  - 20.4 Budgets are produced in a timely manner that allows for their proper scrutiny by those responsible for taking decisions.
  - 20.5 Budgets are issued in time to monitor the whole period of performance to which they refer.
- 21 A budget should safeguard an organisation's capacity to respond to unforeseen changes in circumstances and demands. To do this, the director of finance should recommend appropriate policies on:
- 21.1 The level of general and earmarked reserves.
  - 21.2 Provisions for identifiable liabilities.
  - 21.3 Working balances.
  - 21.4 Contingency planning.
  - 21.5 Treatment of inflation, e.g. whether the budget should be cash-based or be constructed on a real-terms basis.
  - 21.6 Borrowing levels and costs.
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- 22 A budget will often contain a balance between sub-objectives or policies, such as service maintenance & development and asset maintenance & development, or between products, or between front-line services and support functions. The director of finance should take all reasonable steps to ensure that the relationship between these aspects is clearly demonstrated and understood.
- 23 Budgets should be accompanied by a clear explanatory and interpretative report, highlighting the basis of preparation and risk issues.

### Effective and controlled implementation of budgets

- 24 **Directors of finance should take all reasonable steps to ensure that responsibilities for budget management and control are unambiguously allocated, that commitments are properly authorised, and that budgets are related to clear objectives and outputs.**

#### *Guidance*

- 25 To achieve an effective implementation of a budget, the director of finance should take all reasonable steps to ensure that:
- 25.1 Each part of the budget is compiled with the participation of whoever will be responsible for its control and performance
- 25.2 The outcome of budget decisions, whether capital or revenue, are communicated to all those that need to know. Budget targets should be expressed in output terms as well as financial terms wherever possible.
- 25.3 Responsibility for each element of the budget is delegated to a named individual. There must be no ambiguity about the responsibility for the authorisation and monitoring of any financial or non-financial element.
- 25.4 There are clear rules for dealing with:
- 25.4.1 Additions to budgets, including any additions for inflation.
- 25.4.2 Virement between budget headings.
- 25.4.3 The commitment of future years' budgets by spending decisions in the current year.

- 25.4.4 The treatment of over- and under-spending at the year end.
- 25.5 Appropriate systems are in place to authorise, verify and record budget commitments and actuals, including comprehensive systems of internal control.
- 25.6 There are links to operational systems so that operational performance can be assessed alongside financial performance.
- 25.7 Budget data is accessible to those responsible for budgets in a timely and understandable way.

### **Measurement and monitoring of performance against budgets and objectives**

- 26 **Directors of finance should take all reasonable steps to ensure that effective systems and procedures operate to monitor progress against budgets and their objectives at regular intervals, and that appropriate reporting mechanisms are in place.**

#### *Guidance*

- 26 Monitoring of budgets is essential, not just to verify expenditure or income against targets but also to identify changing patterns or circumstances that may give rise to the need for corrective management action or changes in policy. Therefore, the director of finance should take all reasonable steps to ensure that:
    - 26.1 Regular monitoring of all aspects of the budget takes place, whether it is income, expenditure, borrowing levels, project progress, operational outcomes or cash flows, and that the results of such monitoring is appropriately documented.
    - 26.2 Resources from donations, grants or partnerships are being used for the purposes for which they are intended, and that any necessary documentation is safeguarded.
    - 26.3 Monitoring data is used to predict out-turns by providing mechanisms and systems to achieve this.
    - 26.4 Monitoring results are reported upwards to the appropriate level and in an appropriate manner for the level of management or non-executive.
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- 26.5 Action is taken where results indicate that a change of policy, practice or budget is needed.
- 26.6 Monitoring data is fed back into the planning cycle for the following years' budgets.
- 27 It is normally the responsibility of the director of finance to monitor and report on the overall financial position of the organisation at appropriate intervals and in time for corrective action to be taken.

## FINANCIAL TRANSACTIONS MANAGEMENT (Exchequer Services)

### FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
- 2 CIPFA's Standard of Professional Practice on Ethics states that professional accountants have a responsibility to the public in carrying out their duties. Part of that responsibility relates to the public's reliance on professional accountants when they have responsibility for financial transactions or exchequer services. This covers not only the integrity of the accounts and the way in which they are presented and disseminated, but also the accounting and other processes that underpin the service to customers and stakeholders.
- 3 The Institute has issued this SoPP to set out the principles that members need to follow in order to ensure the delivery of efficient, effective, economical and considerate services.
- 4 This SoPP should also be considered in the context of the wider legal framework within which the organisation administers these services. The context also includes the needs and expectations of customers, who expect services to be provided in an efficient, effective and considerate manner.
- 5 An organisation's financial transactions or exchequer services staff maintain accounting records on behalf of or in support of its stakeholders and its customers. Customers rely on these services to make payments and collect revenue. The consequence of unprofessional work can range from inconvenience to catastrophe for customers; and there can be financial, legal and reputational consequences for the organisation. It is therefore essential that these services are managed to high standards.
- 6 The *Standard of Professional Practice on Financial Reporting* applies as much to exchequer services as to the main accounts of the organisation, and that SoPP should be read in conjunction with this one.

## FINANCIAL TRANSACTIONS MANAGEMENT (exchequer services)

### INTRODUCTION

#### Applicability

- 7 This SoPP is applicable to all members who undertake or supervise financial transactions or exchequer functions and to those who have overall responsibility for their conduct.

#### Scope

- 8 This SoPP considers:
- The collection of income, including sundry debts; and taxation, such as income taxes, excise taxes, employment taxes, council tax, business rates, duties, fines and penalties.
  - Payroll and associated benefits.
  - Creditor payments.
  - Housing and council-tax benefits and other welfare benefits.
  - Pension payments, and superannuation administration and advice.
  - NHS Endowment Fund administration.
  - Banking and other arrangements for handling cash.

The key principles of this SoPP are also applicable to any similar service not specifically mentioned above

#### Objectives

- 9 To take all reasonable steps to ensure that the receipt, handling and payment of funds are all conducted with due regard for economy, efficiency, effectiveness and legality.

### KEY PRINCIPLES

#### Payroll and associated benefits

- 10 **Directors of finance should take all reasonable steps to ensure that payments are made on time, accurately and in accordance with legal requirements.**

## FINANCIAL TRANSACTIONS MANAGEMENT (exchequer services)

### *Guidance*

- 11 All payments due (both regular and extraordinary) should be made, as far as is within the member's control, on the correct payday.
- 12 There should be correct and timely payments of authorised deductions to the receiving body.
- 13 The provision of certificates which may be required in accordance with any legal enactment must be undertaken within defined timescales.
- 14 There should be correct and timely accounting for:
  - 14.1 Deduction of taxes and other deductions required by law.
  - 14.2 Deduction of amounts required by employer and employees.
  - 14.3 Payments of deductions to receiving bodies.

### **Creditor payments**

- 15 **Directors of finance should take all reasonable steps to ensure that invoices are paid on time, accurately and in accordance with legal requirements.**

### *Guidance*

- 16 Prices and other terms of any purchase order should be verified and the invoice subsequently paid accurately, on time (within the member's control) and according to legal requirements.
  - 17 Problems should be resolved in a timely manner, with members providing appropriate assistance and direction to internal clients in settling disputes with vendors arising from payment deductions.
  - 18 There should be a follow-up service on outstanding invoices to ensure timely payment.
  - 19 Refund cheques should be applied to the proper accounts, and returned cheques should be promptly cancelled, made void or re-issued with due care and control.
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**Income collection**

20 **Directors of finance should take all reasonable steps to ensure that:**

20.1 **Taxation is collected on time, as efficiently as possible, and in accordance with specified organisational procedures.**

20.2 **Sundry debts are collected efficiently by raising invoices on time and for the correct amount.**

20.3 **Debtors in default of payments should be pursued in accordance with specified organisational procedures.**

*Guidance*

21 Members should adhere to codes of conduct relevant to income collection to which an employer subscribes.

22 The outputs from all related accounting systems should be checked and validated (e.g. for allocation errors) to ensure that no unwarranted pressure is, by default, brought to bear on debtors. The specific circumstances of each case should also be considered.

**Housing, council-tax and other welfare benefits**

23 **Directors of finance should take all reasonable steps to ensure that benefits payments are made on time, accurately and in accordance with prevailing legal requirements, relevant regulations and the recipients' entitlements.**

*Guidance*

24 It is likely that specialist computer systems will be provided to administer housing and council-tax benefits and other welfare benefits. These should be constructed and maintained in accordance with the general principles set out above to take all reasonable steps to ensure that benefits payments are made accurately, on time and only in response to genuine claims.

25 Returns of statutory information to government departments, agencies or equivalent bodies should be accurate and timely.

## FINANCIAL TRANSACTIONS MANAGEMENT (exchequer services)

### Pension payments, superannuation administration and advice

- 26 **Directors of finance should take all reasonable steps to ensure that payments are made and advice is given on time, accurately and in accordance with prevailing regulations, legal requirements and the recipients' entitlements.**

#### *Guidance*

- 27 It is likely that specialist systems will be provided for pension and superannuation payments and administration. These should be constructed and maintained in accordance with the general principles set out above to take all reasonable steps to ensure that pensions payments are made accurately and on time.
- 28 Any advice given to employees and other parties must be accurate and demonstrably unbiased.
- 29 Specialist advice must be given only by suitably qualified members.
- 30 Directors of finance should ensure that superannuation advice is given only by people specifically trained to do so.

### Banking and other arrangements for handling cash

- 31 **Directors of finance should take all reasonable steps to ensure that**
- 31.1 **Cash is handled with special care to avoid loss, particularly loss through theft.**
- 31.2 **Cash-handling systems are in place that reduce the opportunity for loss and theft.**
- 31.3 **Secure arrangements are in place to deal with the handling of electronic or other cash-less transactions.**

#### *Guidance*

- 32 Effective internal controls should be implemented to ensure that cash is accounted for promptly on receipt and stored securely before being banked into an authorised account. Bank accounts should be regularly reconciled with the organisation's accounting system(s).



### FINANCIAL REPORTING

#### FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
- 2 An organisation's accounting records are the principal source of information for the preparation of the annual financial statements and for the efficient conduct of its affairs. It is therefore essential that they are accurate and appropriate for their purposes. The accounting and information systems must provide a basis for the generation of the management information necessary for the effective and efficient day-to-day operation of the organisation, and this should be consistent and compatible with the information in the financial statements. The records and the reports that are derived from them are fundamental to the exercise of members' responsibilities to the organisation and its stakeholders.

#### INTRODUCTION

##### **Applicability**

- 3 This SoPP is applicable to all members who are responsible for the management and implementation of an organisation's external and internal financial reporting. Some responsibilities will usually be more closely identified with the director of finance or equivalent postholder. However, the duty of care in carrying out this function belongs to all members involved in the process, at any level within the organisation.
  - 4 The detailed requirements of the financial statements and other financial reporting, as well as the responsibilities of the director of finance, will be determined by the legal and regulatory framework within which the organisation has to operate. Where specific professional accounting standards have been developed by recognised standard setting bodies for particular organisations, CIPFA's Ethics SoPP states that members are required also to comply with these standards.
  - 5 Members should use their judgement as to the best way of satisfying the organisation's financial reporting requirements within the resources available. Members' judgements will take account of statutory requirements, relevant accounting standards and professional requirements, as well as the objectives of the organisation.
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### Scope

- 6 This SoPP covers both the integrity of the statutory accounts and the way they are presented and disseminated, and also the processes that underpin the financial management of the organisation.
- 7 Financial reporting can be defined in terms of those for whom the reports are intended. At one end of the spectrum are the annual financial statements of an organisation, which are the prime means of demonstrating its responsibility to its stakeholders; while at the other end are the internal reports, aimed at providing information for decision-making by managers. The integrity of an organisation's accounting records demands that all reports are compiled using consistent principles and data. Therefore, this standard covers both internal and external financial reporting.
- 8 Modern information and communications technology means that users in many organisations access data direct from the organisation's databases and do not need to rely on pre-determined reporting formats or frequencies. They can also manipulate that data to provide their own reports. This standard does not, therefore, apply to these user-generated reports, but *does* apply to the systems and processes that collect and assemble the data on which such reports are based.
- 9 For the purposes of this Standard, 'Financial Reporting' comprises:

#### 9.1 Financial Statements

These comprise external reports of a general nature that relate to the organisation's financial position. Annual accounts are the most obvious example, but other reports might include the organisation's budget and periodic reports on financial performance.

#### 9.2 Special-Purpose Financial Reports

These include financial reports that are required by regulators, tax authorities and others, where the requisite information and format are specified by an external authorised body.

The Standard applies to both types of report, whether they are printed or disseminated electronically.

9.3 Internal Financial Reports

These are formal reports that are produced for decision-makers within the organisation. Examples include policy papers with financial information, budgets and budget-monitoring reports, and project appraisals. Informal reports generated by managers themselves for daily control and similar purposes are not included in this definition, as it is neither practicable nor sensible for the finance director to have responsibility for any of these. However, the quality of the underlying finance systems used for generating such reports remains the responsibility of the director of finance.

- 10 The Standard also covers the electronic and paper-based systems that are used to provide the data contained in the reports that are subject to this Standard and in all other reports that use the financial information systems of the organisation.

**Objectives**

- 11 The objectives of financial reporting are the production of accurate, complete, relevant, timely and reliable financial information to demonstrate and maintain accountability, to meet statutory reporting requirements, to account to an organisation's stakeholders for its financial performance and to support decision-making.

KEY PRINCIPLES

**Integrity of the accounting and financial systems**

- 12 **Directors of finance should take all reasonable steps to ensure that the accounting and financial information systems provide an accessible, complete, comprehensive, consistent and accurate record of the organisation's financial transactions.**

*Guidance*

- 13 The director of finance should take all reasonable steps to:
- 13.1 Approve the design of all significant accounting and financial information systems, whether electronic or manual. This includes systems that are organisation-wide and those that are developed for use in a discrete part of the organisation. It also includes the financial components of service-specific management systems that are significant to or integrate with the main accounts.

All such systems should:

- 13.1.1 Have adequate security to prevent unauthorised access to data.
  - 13.1.2 Have adequate recovery procedures in the event of a technical failure.
  - 13.1.3 Provide an audit trail of transactions.
  - 13.1.4 Handle data in a structured but flexible way.
  - 13.1.5 Have a system of internal controls that ensures accuracy and authenticity, including procedures for the prompt correction of errors or irregularities.
  - 13.1.6 Be consistent with the organisation's financial regulations.
- 13.2 Ensure that, as a minimum, accounting records are kept which are sufficient to show and explain the organisation's transactions and commitments, such that:
- 13.2.1 Throughout the year, the current financial position and financial viability of the organisation can be determined and reported.
  - 13.2.2 Material items affecting the accounts and the financial position of the organisation can be identified and satisfy any investigation by regulatory bodies.
  - 13.2.3 Statutory requirements can be complied with.
- 13.3 Ensure that the accounting records, in particular, contain:
- 13.3.1 Entries for all sums received and expended by the organisation and disclose the matters to which the income and expenditure relates.
  - 13.3.2 A record of assets and liabilities of the organisation.
- 13.4 Ensure that transactions are recorded as they arise, where possible, and in any event within a reasonable time given the nature and frequency of the transactions involved.

- 13.5 Maintain an effective monitoring system to ensure that accounting and financial information systems and records remain relevant to changing circumstances.

### Quality of financial reports

- 14 **Directors of finance should take all reasonable steps to ensure that all financial reports are relevant, reliable and consistent and are compatible with the organisation's accounting and financial information systems.**

#### *Guidance*

- 15 The Accounting Standards Board, in its Statement of Principles for Financial Reporting, defines the objective of financial statements as being 'to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions'.
- 16 An organisation's accounting records are the principal source of information for the preparation of financial statements. The accounting and financial information systems should provide a basis for the generation of the management information and financial reports necessary for the day-to-day operation of the organisation, and these should be consistent and compatible with the information in the financial statements.
- 17 Directors of finance should take all reasonable steps to ensure the quality and integrity of all financial information contained not only in financial statements but also that used in any special purpose financial report which may be issued or published, and also in internal financial reports including those that link operational to financial performance.
- 18 Where 'informal' financial reports (e.g. those that assist management in operational and policy-formulating tasks) are produced by users from data provided by the accounting and financial information systems, the director of finance's responsibility is to ensure that the data made available accords with the appropriate standards of accuracy and consistency. The director of finance should also make every effort to see that users are properly trained in the use of financial data and systems. Any subsequent translation of these informal reports into significant formal internal financial reports (e.g. those on which policy decisions are taken) will then fall within the responsibilities of the director of finance as described above.
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- 19 Responsibilities for the interpretation of financial information in internal financial reports should be clearly defined by the organisation.
- 20 In ensuring that financial reports are relevant, reliable, comparable and understandable, directors of finance should keep in mind the following principles:
- 20.1 Information is relevant if:
- 20.1.1 It has the ability to influence the user and is provided in time to influence those decisions.
- 20.1.2 It is material (e.g. if its mis-statement or omission might influence the decisions of users).
- 20.2 Information is reliable if:
- 20.2.1 It reflects the reality and substance of transactions and events.
- 20.2.2 It is free from bias and material error, and is complete.
- 20.2.3 Where uncertainty exists, a known degree of caution has been applied in exercising the necessary judgements and the nature of those judgements is made explicit.
- 20.3 Information is comparable if:
- 20.3.1 It is prepared and presented in a way that enables users to discern and evaluate the effects of transactions and events over time and between different reporting entities.
- 20.3.2 It uses consistent accounting policies and practices.
- 20.3.3 It is comparable with other financial reports.
- 20.4 Information is understandable if its significance can be perceived by users who have a reasonable knowledge of the organisation's activities and of financial matters (information should not be excluded just because it might not be understood by some users).
- 20.5 Aggregation of items of information into broader categories of information is appropriate when it is used to:
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20.5.1 Convey information that would otherwise have been obscured.

20.5.2 Highlight significant items and relationships.

20.5.3 Facilitate comparisons with other entities' reports.

- 21 To safeguard the quality and the transparency of financial reporting, comprehensive working papers should be maintained which set out the basis on which sums have been estimated and assumptions made. If appropriate, notes should be added to a financial report in order to clarify estimated figures.
- 22 In summarising, or in any other way altering financial statements for inclusion in an abbreviated annual report or some other document, the director of finance should ensure that the summarised version does not distort, but remains a fair presentation of, the financial position of the organisation.

### **Accessibility, appropriateness and timeliness of information**

- 23 **Directors of finance should take all reasonable steps to ensure that the accounting and financial information systems make available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the organisation.**

#### *Guidance*

- 24 The provision of appropriate information is dependent on the design of accounting and financial information systems that generate, classify and structure that information. Meeting the corporate need for financial information about the organisation, whether for decision-taking or accountability, is the responsibility of the director of finance, but the needs of management, front-line users and non-executives for financial information should be established in consultation with representatives of those groups.
- 25 Directors of finance, within an overall framework of corporate governance and risk management, have a responsibility to try to meet the needs of those groups; and should consult them on data gathering, systems design, report formats and dissemination.
- 26 Wherever possible, information should be made available directly to managers and front-line users and in a way that enables them to interpret it and produce their own reports. Adequate safeguards must be in place to prevent unauthorised

alterations and access to data. The director of finance should take all reasonable steps to ensure that the information needs of users are met in a way that is consistent with the financial information and accounting systems of the organisation as a whole, and in a way that permits ready and consistent aggregation into those systems.

- 27 There is a balance to be struck between the need to produce financial information quickly in order to make it relevant and the time required to make the information reliable. If financial reports are to be useful to the user, they should be produced and published together, if relevant, with an audit opinion, as soon as possible. Directors of finance should take all reasonable steps to have audited financial statements published within the timescales applicable to their organisations. Good practice within both the private and public sectors is to publish well within the timescales, and sectoral requirements are likely to move publication dates earlier. Directors of finance should take all reasonable steps to ensure that their organisations are able to respond to earlier publication requirements.
- 28 It is recognised that the timing of the external auditor's work programme is not always in the director of finance's control. However, if timely reporting is to be achieved, the director of finance should ensure that the work of preparing the annual financial statement is planned, monitored and controlled. In this respect, it is important that at the planning stage, due consideration is given to the relationship with the external auditor's work programme. The director of finance should take all reasonable steps to ensure that the draft annual financial statements are made available to the external auditor in sufficient time to enable the audited financial statement to be published within the timetable agreed at the planning stage and in compliance with any legally-stipulated period for the organisation.
- 29 The director of finance should plan to be in a position to make a timely presentation to other directors, the management board and any elected representatives, or their equivalent, on the content of the financial statements.
- 30 The director of finance should ensure that financial statements are distributed in accordance with any statutory requirements and, where appropriate, to interested parties identified by the organisation; and also that other potential users are aware of their availability and how to obtain a copy of them.

**Compliance**

- 31 **Members should observe and comply with relevant statutory requirements and regulations, financial reporting standards, professional standards and directions from government departments.**

*Guidance*

- 32 It is expected that members who assume responsibility in respect of financial statements and other financial reports will observe financial reporting standards issued by the UK Accounting Standards Board and where relevant, the International Accounting Standards Board . The Institute's Standard of Professional Practice on Ethics stresses the continuing duty on members to maintain their professional knowledge. The principal organisations whose pronouncements should be followed are listed in the Appendix.
- 33 The Institute Council has agreed that where this responsibility exists by the association of members' names with such financial statements in their capacity as directors or other officers, other than as auditors, the onus will be on them to ensure that the existence and purpose of financial reporting standards and other relevant recommended practice is understood by fellow directors and other officers. Members should also ensure that financial reporting standards are observed and that any significant departures found to be necessary are adequately disclosed and explained in the financial statements.



## SUSPECTED FRAUD & CORRUPTION

### FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
- 2 The awareness of the risks and consequences of fraud and corruption has been increasing across the public services in recent years. Reports by public sector audit institutions and the Public Accounts Committee have all highlighted the impact that fraud and corruption can have on specific organisations and on all aspects of public-sector administration.
- 3 This SoPP is written in that context, and states the course of action to be taken by CIPFA members should they find themselves with information on allegations of fraud or corruption.
- 4 This SoPP sets out the responsibilities in relation to the reporting of potential abuses and also the reporting of weaknesses in control systems that may result in such abuses. It does not cover the methods by which a fraud or corruption investigation is conducted.

### INTRODUCTION

#### **Applicability**

- 5 This SoPP is applicable to all members of the Institute. The SoPP does not consider how allegations of fraud or corruption should be investigated, but rather deals with the importance of members being aware of matters affecting the control of their employing organisation and of their responsibility to report any allegations of fraud and corruption that may come to their attention. Fraud investigation requires considerable specialist knowledge and should, therefore, be left to suitably trained individuals.

#### **Scope**

- 6 All organisations should make every effort to ensure that the control systems in place are sound and are designed, amongst other things, to prevent fraud and corruption. Elements likely to be included are financial regulation, anti fraud and
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whistleblowing policies, provision of trained fraud investigators, fraud awareness training for all staff and codes of conduct. However, the threat of control weakness and fraudulent or corrupt activities always remains.

- 7 Therefore, this SoPP is generally applicable to all aspects of organisations, including their governance, management and operational activities.

### Objectives

- 8 To ensure that all weaknesses in internal control and allegations of fraud or corruption, whether actual or perceived, are adequately reported using the procedures established in the employing organisation or other appropriate action should established procedures be inadequate in the circumstances.

### KEY PRINCIPLES

#### Compliance with internal control procedures

- 9 **Members should ensure that they comply with all controls and procedures established by their employing organisation, including those designed to prevent fraud and corruption.**

#### *Guidance*

- 10 Members should:
  - 10.1 Be fully aware of the controls that are in place at their employing organisation. Such information can be found in the organisation's standing orders and financial regulations and other such procedure documents.
  - 10.2 Comply with such control procedures at all times.
  - 10.3 Take all reasonable steps to ensure that controls are complied with by others. This is particularly relevant for members who have a supervisory or management responsibility.

### Reporting internal control weaknesses

- 11 **Members should ensure that they report to an appropriate person any potential control weaknesses that come to their attention**

*Guidance*

- 12 Members should make every effort to be aware of the potential consequences of a failure or weakness in control procedures, and should take all reasonable steps to ensure that such control procedures are sufficiently robust to prevent fraud and corruption.
- 13 If during the normal activities of a member, control weaknesses are identified, whether the weakness is actual or perceived, a member should report the weakness, and the potential consequences, to an appropriate person. In this context, an appropriate person would include, for example, a line manager, the head of internal audit or the director of finance. This is particularly important if the control weakness might enhance the potential for fraud.
- 14 A reluctance to report potential control weaknesses undermines the organisation's entire corporate governance and control framework.

### Fraud and corruption reporting procedures

- 15 **Members should ensure that they are fully conversant with the procedures established within their employing organisations for reporting allegations of fraud and corruption.**

*Guidance*

- 16 Members should familiarise themselves with their organisations' procedures for reporting allegations of fraud. It should also be recognised that different types of allegation may have a different reporting protocol. For example, in local government, allegations of housing-benefit fraud are sometimes subject to different reporting arrangements from those that apply to allegations of fraud and corruption concerning employees.
- 17 Members in senior-management rôles should ensure that clear and effective procedures are in place for reporting allegations of fraud and corruption, and that these are communicated to all staff. See also paragraph 23.

### Reporting allegations of fraud and corruption

- 18 **Members should ensure that they report all suspicions of fraud and corruption promptly and confidentially using the established reporting procedures.**

#### *Guidance*

- 19 Should members receive, or uncover, evidence of the possibility of fraud or corruption, they should promptly report the matter to the appropriate person identified in their organisations' established reporting procedures. The consequences of a failure to report allegations of fraud and corruption promptly can be serious, and may affect the chances of a successful investigation. Also, those who are minded to perpetrate fraud and corruption will feel less likely to be apprehended if they become aware of a reluctance to act when such abuses are uncovered.
- 20 In the absence of such procedures, the appropriate person would, for example, include a line manager, the head of internal audit or the director of finance. If there is any doubt as to whom allegations should be reported, the organisation's external auditor should be in a position to advise.
- 21 Allegations should be reported confidentially. Confidentiality is important not only to protect the innocent but also to ensure that an opportunity is not offered to cover up fraudulent activity or to destroy potential evidence of such activity.
- 22 Members should not attempt to investigate such matters unless they have received specific training and have the authority within the organisation to conduct such investigations. It is essential that fraud and corruption investigations are dealt with only by trained staff, to ensure that nothing is done that may hamper any subsequent criminal or civil proceedings.
- 23 In this context, and in relation to paragraphs 15-17 above, the Public Interest Disclosure Act 1998 is particularly relevant (Appendix C to the CIPFA Standard of Professional Practice on Ethics summarises the purpose of this Act).

### Further sources of guidance

- 24 There are many sources of written guidance on the issues of internal control and reporting allegations of fraud and corruption aimed at the public services. A helpful starting point is *Propriety and Audit in the Public Sector*, issued by the Public Audit Forum. This document seeks to promote a common understanding of

the concept of propriety in the public services, and is aimed primarily at those involved in the governance, management and audit of organisations in the public sector.



TAX MANAGEMENT

FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
- 2 All employers, and all purchasers and providers of goods and services, are required to account for payroll, direct and indirect taxes in relation to a significant proportion of their transactions. In doing so, they have a duty to, for example, the Inland Revenue and HM Customs and Excise (the 'revenue-collecting authorities'), and are required to comply with regulations governing the bringing to account and payment of tax due. Failure to satisfy these requirements will expose organisations to a regime of strict financial penalties; and as a result, they will incur a real but avoidable loss.
- 3 Public sector bodies, other than public-sector corporations, are generally exempt from taxation other than in relation to employment taxes and value added tax. However, over recent years there have been major changes in the management and delivery of public services and an increased emphasis on commercial activities. There have been transfers of activities from exempt public sector bodies to taxable entities through the creation of controlled and associated companies, the establishment of joint ventures with partners in other parts of the public or in the private sector, through public/private partnerships, and through PFI.
- 4 Public sector bodies increasingly have the potential to be involved in transactions where the taxation dimension is neither obvious nor straightforward. Consequently, a failure to recognise and understand the taxation implications of particular decisions at the planning stage may result in avoidable losses. In addition, failure to monitor the changes affecting taxation on existing transactions may have the same outcome. Therefore, it is essential that taxation issues are managed effectively.
- 5 There has also been the introduction of new taxes that impact upon public-sector organisations, such as insurance premium tax, landfill tax, climate change levy and aggregates levy.
- 6 Together, these developments have brought the responsibilities of members with regard to the management of taxation into much sharper focus, and require that members should be able to demonstrate a proper professional knowledge and understanding of taxation issues and tax management.

INTRODUCTION

**Applicability**

- 7 The public's reliance on professional accountants for the integrity of the finance function includes a reliance on efficient and effective tax management. This presumes not only that tax liabilities are recognised and reported, but also that the risks of avoidable tax losses are minimised. Some responsibility will usually be more closely identified with the director of finance or equivalent postholder. However, the duty of care in discharging these responsibilities belongs to all members involved in the process, at any level in the organisation. Accordingly, this SoPP is applicable to all members who are involved in the management of taxation.
  
- 8 The detailed requirements of the management of taxation and the reporting of liabilities and obligations, as well as the responsibilities of the director of finance, will be determined by the legal framework within which the member's organisation operates. Where specific professional accounting standards have been developed by recognised standard setting bodies for particular organisations, CIPFA's Ethics SoPP states that members are required also to comply with these standards.

**Scope**

- 9 'Tax management' can be defined as ensuring that systems and procedures are in place and that records are maintained to secure that:
  - 9.1 The tax implications of any proposed transaction are properly recognised before decisions are made.
  - 9.2 The tax implications of existing transactions are kept under review.
  - 9.3 Tax liabilities, recoveries or obligations are:
    - 9.3.1 Identified before the relevant transactions are entered into.
    - 9.3.2 Calculated in accordance with regulations.
    - 9.3.3 Recorded at the appropriate time.
    - 9.3.4 Accounted for in the proper tax period.

9.3.5 Disclosed to the appropriate revenue-collecting authorities in the required manner.

9.3.6 Documented satisfactorily at all stages.

## Objectives

- 10 The efficient and effective management of taxes with a view to ensuring that tax liabilities and obligations are properly reported and accounted for to ensure the avoidance of any tax losses.

## KEY PRINCIPLES

### Responsibilities of the director of finance

- 11 **Within the specific legislative framework for each organisation, directors of finance should ensure that systems exist to secure the efficient and effective management of taxes, in particular to ensure that tax liabilities and obligations are properly reported and accounted for and to prevent any tax losses.**

#### *Guidance*

- 12 To ensure that they meet their obligations and duties under this SoPP, directors of finance should:
- 12.1 Define and allocate duties in relation to taxation and tax management.
  - 12.2 Take all reasonable steps to ensure that financial-control systems are operating effectively to produce the necessary information and minimise the risk of error.
  - 12.3 Secure an appropriate level of knowledge and financial awareness amongst those staff who might be involved in processing transactions involving elements of tax.
  - 12.4 Provide proper assistance to any routine inspection or special investigations undertaken by the revenue authorities.

- 12.5 Review the justification for, and the quantum of, any assessment made as a result of any such inspection or investigation .
- 12.6 Make such arrangements as are necessary to monitor the discharge of these responsibilities.

### Administration

- 13 **Directors of finance should ensure that they either nominate themselves as tax officers or nominate a specialist tax officer to assist them discharge their responsibilities.**

#### *Guidance*

- 14 Professional advisers may be appointed where considered necessary, but the responsibility will remain that of the director of finance. The director of finance should consider undertaking a cost-benefit analysis including, where relevant, an assessment of the likely net benefit to the public finances in general, before entering into any professional advice arrangements. Whichever approach is adopted, the director of finance should ensure that there are proper arrangements set down in writing.
  - 15 Proper written arrangements should include:
    - 15.1 The preparation and verification of any relevant returns which require the signature of the director of finance or the nominated officer.
    - 15.2 How to deal with communications with the relevant revenue authorities and with any external advisers.
    - 15.3 How to keep up to date with legislative, case law and custom & practice developments, and how to determine the implications for the organisation.
    - 15.4 The provision of advice to elected members, board members and other officers, as appropriate.
    - 15.5 How to recognise the point at which in-house expertise is exhausted or in-house resources are constrained, and hence the need to obtain specialist professional advice and/or assistance.
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## Financial control systems

- 16 **Directors of finance should take all reasonable steps to ensure that financial control systems are set in place to enable the organisation to bring all of its tax liabilities to account and to ensure that tax is recovered to the fullest possible extent.**

### *Guidance*

- 17 This requires action to be taken to:
- 17.1 Minimise the risk of large or persistent errors through the automation of calculation and recording functions, by the existence of validation reconciliations and controls, and by management-review procedures.
- 17.2 Review the design of systems to provide the information required by revenue authorities on returns or for other purposes is produced in the format required, efficiently and on time.

## Financial awareness

- 18 **Directors of finance should take all reasonable steps to create and maintain an awareness of the importance of effective tax accounting across the whole organisation, but especially amongst those responsible for initiating and processing transactions.**

### *Guidance*

- 19 This requires action to be taken to provide that:
- 19.1 Clear lines of communication are established by tax officers for the dissemination of all relevant information to appropriate members of staff, especially that relating to significant changes in regulations.
- 19.2 Information disseminated is designed to complement the standing financial instructions and the procedures manuals of the organisation concerned. All processes having tax implications are fully documented in such guidance.

- 19.3 The risk of large or persistent errors is minimised, through the automation of calculation and recording functions and the existence of validation controls and reconciliation and management review procedures.
- 19.4 The design of systems is reviewed to ensure that the information required by revenue authorities on returns or for other purposes is produced in the format required, efficiently and on time.

## TREASURY MANAGEMENT

### FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
  - 2 Treasury management is an important function in every organisation, whether in the public or the private sector and whatever the size and nature of its businesses or remit.
  - 3 Treasury management can make a significant contribution to supporting the achievement of an organisation's business and service goals. The precise nature of this contribution will depend largely on the type of organisation concerned, the statutory and regulatory regimes under which it operates, and the scope, complexity and objectives of its treasury-management function.
  - 4 The implications of ineffective treasury management range from shortfalls in interest earnings on cash surpluses to potentially substantial losses through poor management controls over market dealings.
  - 5 The results may be highly damaging, not only to the organisation itself but also to the professional reputations of those individuals charged with responsibility for the treasury-management function.
  - 6 In respect of the relationship between this SoPP and the Institute's Code of Practice for Treasury Management in the Public Services (the 'TM' Code), the following should be noted:
    - (a) The SoPP applies to individual CIPFA members, whereas the TM Code applies to any organisation that has adopted it as part of its standing orders, financial regulations or other formal documents appropriate to its circumstances.
    - (b) Non-compliance with the TM Code by a CIPFA member while employed by, or undertaking work for, an organisation that has adopted the TM Code may be considered as a material factor in any disciplinary action under the Institute's bye-laws.
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### INTRODUCTION

#### Applicability

- 6 Although much of this SoPP is directed towards members in the public services, it is applicable to all members who are responsible for treasury management.

#### Scope

- 7 Treasury management includes the management of cash flows, banking, money-market and capital-market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. This definition is intended to embrace an organisation's use of capital and project financings, borrowing, investment, and hedging instruments and techniques.

#### Objectives

- 8 Commercial organisations may properly anticipate that, within appropriate risk exposure criteria, their treasury-management activities will make a contribution towards their profits or surpluses. On the other hand, the essentially more cautious nature of many organisations, particularly those in the public services, will lead to the focus of treasury management falling largely on the effective control of risk.
- 9 Whatever the organisation, the achievement of optimum performance consistent with its risk exposure criteria in its treasury management activities is an important indicator of effective corporate management.

### KEY PRINCIPLES

#### Treasury management within the wider business and service objectives

- 10 **Within the framework of the responsibilities placed upon them, members involved in an organisation's treasury management should take all reasonable steps to ensure that they and their staff undertake their treasury management duties at all times:**
  - **In a professional manner as defined in this SoPP.**

- **To facilitate the delivery of their employing organisation's treasury-management policies and objectives.**
- **To help the organisation achieve its wider business and service goals.**

*Guidance*

- 11 Directors of finance whose employing organisations are within the public services should take all reasonable steps to ensure that the key recommendations in CIPFA's Code of Practice for Treasury Management in the Public Services are adopted in full.
- 12 Directors of finance should ensure that they and their staff are:
- 12.1 At all times competent and equipped with the necessary skills and training to enable them to fulfil their particular treasury-management roles and responsibilities effectively.
- 12.2 Conversant with the legal and regulatory issues affecting the treasury management activities of their employing organisation.
- 13 The CIPFA Code of Practice for Treasury Management in the Public Services provides further guidance on this and the following principles.

**Treasury management budgeting and accounting**

- 14 **Directors of finance should ensure that:**
- **Budgets are prepared, considered and approved for the treasury management function.**
  - **The results of treasury management decisions and transactions are properly recorded and accounted for.**
  - **The above are undertaken in accordance with appropriate accounting practices and standards, and within statutory and regulatory requirements.**

*Guidance*

- 15 Directors of finance should ensure that they and their staff are conversant with the market practices, instruments and techniques available to their employing

organisation, and use them in a manner appropriate for the purpose of achieving high standards of treasury-management performance.

**Treasury management decision-making and analysis**

- 16 **Directors of finance should ensure that within the policy and procedural framework of their employing organisations, systems exist which:**
- **Enable treasury management decisions to be subjected to rigorous analysis.**
  - **Allow those responsible for such decisions to identify, measure and fully understand the implications of those decisions, particularly with regard to the risks to the organisation.**
- 17 **Directors of finance should ensure that treasury-management decisions are properly documented and recorded for their employing organisations, to enable:**
- **Lessons to be learned and applied for the future benefit of the organisation.**
  - **Records to be maintained of past decisions, to establish the processes by which particular decisions were taken.**

*Guidance*

- 18 Directors of finance should ensure that:
- 18.1 Presentations of information on which treasury-management decisions are to be taken reflect the principles of trustworthiness, honesty, truthfulness and objectivity.
- 18.2 Their employing organisation's treasury-management policies and practices accurately reflect the legal and regulatory regimes under which the organisation operates.
- 18.3 They review the organisation's treasury-management policies and practices on a regular basis with a view to identifying ways of minimising the risks of losses through improved checks and safeguards and through clarity and segregation of responsibilities and dealing procedures.

- 18.4 The execution of the organisation's treasury-management decisions is in accordance with the organisation's policies and practices.

### Treasury management reporting and review

19 **Directors of finance should ensure that:**

- 19.1 **Reporting and management information arrangements are appropriate in terms of relevance and transparency for both proper decision-making and the subsequent review of the performance and value of the treasury management function. Where appropriate, this should take into account the general principles for information within the *Financial Reporting SoPP*.**
- 19.2 **The treasury management function is subjected to regular review to enable those with responsibility for setting policies and procedures to appreciate, evaluate and – if appropriate – implement opportunities for improving the value of the treasury management function.**

*Guidance*

20 Directors of finance should ensure that:

- 20.1 They and their staff are conversant with the organisation's contractual responsibilities and obligations to third parties, particularly lenders and those involved in financing partnerships.
- 20.2 Data and benchmarks which are appropriate to the organisation's objectives exist for the purpose of measuring the performance of their treasury management activities.
- 20.3 Any necessary actions resulting from applying such measures are taken.
- 20.4 Where fiscal or other incentives, grants or subsidies exist which may legally be applied for their employing organisation's benefit, they will be properly evaluated to enable a considered decision to be taken as to their relevance and potential value to that organisation.





## **APPENDIX**

### **Bodies which set recognised standards**

These include:

- UK Accounting Standards Board.
- UK Auditing Practices Board.
- Parliaments and Assemblies.
- Government Departments.
- The European Commission.
- International Accounting Standards Board.
- International Auditing and Assurance Standards Board.
- International Federation of Accountants ('IFAC').
- SORP-preparing bodies.

### **Types of standards**

These include:

- National and international accounting standards.
- National and international auditing standards.
- National legislation.
- European law and directives.
- Mandatory guidance, such as accounting manuals.
- Statements of Recommended Practice.

### **Other Useful CIPFA Publications**

These include:

- CIPFA Standard of Professional Practice on Ethics.
- Code of Practice for Treasury Management in the Public Services
- The 'Role of the Finance Director' series