

# CIPFA Statement on the Role of the Chief Financial Officer in Local Government

## Consultation Draft

December 2009

CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work (often at the most senior level) in public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards, and professional integrity. CIPFA also provides a range of high quality advisory, information, and training and consultancy services to public service organisations. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

# Consultation

This summer CIPFA launched its Statement on the Role of The Chief Financial Officer in Public Services<sup>1</sup>. Following the launch of the overarching statement, we have now updated our 2003 Statement on the Role of the Finance Director in Local Government. The was approach has been to follow closely the format and principles of the overarching statement but to add in as necessary additional content relating to the unique statutory position of the role in local government.

We are currently seeking views on the draft statement and in particular would be interested in your responses to the following questions:

1. The Statement extends CIPFA's overarching statement to encompass the statutory role of the CFO in local government. Are the key local authority requirements adequately covered? Are any areas missing?
2. The document defines the CFO as the most senior finance professional within a local authority. Do you agree that the CFO should ensure the s.151 can carry out that duty effectively if that role is delegated?
3. The revised Statement repeats previous advice about the interpretation of the meaning of 'officer' in the requirement that the S.151 officer is an officer of the authority. Is this advice still relevant?
4. The statement outlines the key professional requirements placed on the CFO? Do you agree with this list? Are their any areas which you believe to be missing?
5. Since the 2003 Statement, the environment within which local government operates has changed considerably with increasing partnership working, shared services and third party provision of services. Does the proposed statement adequately cover these areas? If not, which are the issues were further guidance is required?

Responses should be Responses should be submitted, preferably by e-mail, so that they will be received by **29 January 2010**. All comments will be considered a matter of public record.

## Comments should be sent to:

Alison Scott  
Assistant Director Local Government  
Policy and Technical Directorate  
CIPFA  
3 Robert Street  
London  
WC2N 6RL

Email: [alison.scott@cipfa.org](mailto:alison.scott@cipfa.org)

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<sup>1</sup> [http://www.cipfa.org.uk/panels/finance\\_director/download/Role\\_CFO.pdf](http://www.cipfa.org.uk/panels/finance_director/download/Role_CFO.pdf)

# Foreword

This Statement on the Role of the Chief Financial Officer in Local Government describes the role and responsibilities of Chief Financial Officers in Local Government. It builds heavily on CIPFA's Statement on the Role of The Chief Financial Officer in Public Services<sup>2</sup> and applies the principles and roles set out in that document to Local Government.

The Chief Financial Officer occupies a critical position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. While the global financial crisis and economic downturn have made these tasks even more challenging, they have also underlined the fundamental importance of the role. Achieving value for money and securing stewardship are key components of the Chief Financial Officer's role in public service organisations, a duty enshrined in legislation for the Responsible Financial Officer in local government.

*[In order to support Chief Financial Officers in the fulfilment of their duties and to ensure that local authorities have access to effective financial advice at the highest level, CIPFA is proposing to introduce a 'comply or explain' requirement in the annual statement of accounts. Appendix A sets out detailed guidance on how this requirement should be complied with. ]*

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<sup>2</sup> [http://www.cipfa.org.uk/panels/finance\\_director/download/Role\\_CFO.pdf](http://www.cipfa.org.uk/panels/finance_director/download/Role_CFO.pdf)

# the statement on the role of the Chief Financial Officer in Local Government

This Statement on the role of the Chief Financial Officer in Local Government aims to give detailed advice on how to apply the overarching public services Statement within local government. The Chief Financial Officer in local government is not only bound by professional standards but also by specific legislative responsibilities. The role and responsibilities of the 'Treasurer' was developed by case law in England and Wales. In *Attorney General v De Winton* 1906, it was established that the Treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a responsible financial officer to have responsibility for those arrangements

Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a responsible financial officer to have responsibility for those arrangements. In Northern Ireland, section 54 of the Local Government Act (Northern Ireland) 1972 requires local authorities to make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and for those arrangements to be carried out under the supervision the chief financial officer.

Throughout this statement the term Chief Financial Officer (CFO) is used to apply to the most senior finance professional within a local authority. The responsibilities under the Statement remain at all times with that person even where they have delegated the statutory role. The CFO should ensure that the structures in place allow for the effective financial management.

This Statement sets out how the requirements of legislation and professional standards should be fulfilled by Chief Financial Officers in the carrying out of their role. The Statement is not intended to be exhaustive and does not negate the personal responsibility of finance professionals to ensure that they comply with all professional standards and legislative requirements. It is intended to codify the key responsibilities of the Chief Financial Officer in local government and assist those carrying out that role in ensuring that they meet the key personal duties of the role. The Statement refers to CIPFA's Statement of Professional Practice with which all CIPFA members are required to comply. For members of other accountancy bodies this is felt to represent best practice within the public sector. All professional accountants should also have regard to their own bodies Code of Ethics as well as that produced by IFAC.

Contained with the appendices for completeness is a description of the legislative framework and advice on the application of the Statement under the CIPFA/SOLACE Corporate Governance Framework.

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the Chief Financial Officer and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

The Organisation;

The Role: and

The Individual.

For each principle the Statement sets out the governance arrangements required within an organisation to ensure that Chief Financial Officers are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the Chief Financial Officer role within the organisation. Many of the day-to-day responsibilities may in practice be

delegated or even outsourced, but the Chief Financial Officer should maintain oversight and control.

Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their Chief Financial Officer. These include the key requirements of CIPFA and the other professional accountancy bodies' codes of ethics and professional standards to which the Chief Financial Officer as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases can support other principles as well.



### **The Chief Financial Officer in a local authority:**

1. is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
2. must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
3. must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

### **To deliver these responsibilities the Chief Financial Officer:**

4. must lead and direct a finance function that is resourced to be fit for purpose; and
5. must be professionally qualified and suitably experienced.

# principle 1

**The Chief Financial Officer in a public service organisation is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.**

## **Key member of the Leadership Team**

The Leadership Team in public services organisations takes many forms, with different mixes of executive and non-executive members, as well as sometimes including elected representatives. Collectively the Leadership Team are responsible for setting the strategic direction for the organisation, its implementation and the delivery of public services. In recognition of the centrality of financial issues to organisational success it is UK government policy that all government departments should have a professional Chief Financial Officer reporting directly to the permanent secretary with a seat on the departmental board, with a status equivalent to other Board members. HM Treasury recommends 'It is good practice for all other public sector organisations to do the same, and to operate the same standards'.<sup>3</sup> Local authorities are required by legislation to have a suitably qualified Chief Financial Officer with certain defined responsibilities and powers.<sup>4</sup>

CIPFA supports the Treasury's recommendation. The governance requirements in the Statement are that the Chief Financial Officer should be professionally qualified, report directly to the Chief Executive and be a member of the Leadership Team, with a status at least equivalent to other members. The Statement requires that if different organisational arrangements are adopted the reasons should be explained publicly in the organisation's Annual Governance Report, together with how these deliver the same impact.

## **Developing and implementing organisational strategy**

All public service organisations face competition for limited public funds. However they differ in the level of control they have over their total resource envelope. Many will have allocated cash limits, while others have tax raising powers. All will be concerned to examine opportunities, with suitable assessment of legal powers and risk, for building income streams, whether through attracting external grants, charging for services, or commercial activity.

Strategic planning needs to be based on an understanding of the external political landscape, the organisation's demand and cost drivers, and the need to manage and fund longer term commitments on a sustainable basis. Finance translates ambitions and goals across the organisation into a common language, so the Chief Financial Officer must share in the strategy development and implementation responsibilities of the Leadership Team. Where relevant these include supporting elected representatives under the proper governance arrangements. The Chief Financial Officer must also ensure the members of the Leadership Team have the financial capabilities necessary to perform their own roles effectively.

The Chief Financial Officer must encourage continuous improvement and development to enable the organisation to deliver at the highest levels. As well as having the fundamental concern for probity and control, the Chief Financial Officer must be proactive in managing change and risk, be focussed on outcomes, and help to resource the organisation's plans for change and development in the public services it provides. As a key member of the Leadership

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<sup>3</sup> HM Treasury 'Managing Public Money' Annex 4.1. 2007

<sup>4</sup> *The officer appointed as the RFO must, by virtue of section 113 of the Local Government Finance Act 1988 in England and Wales, be a member of a specified accountancy body<sup>13</sup>. There is no equivalent statutory requirement in Northern Ireland and Scotland although in both cases, this is widely acknowledged to be good practice.*

Team, the Chief Financial Officer must also behave in ways that are consistent with the organisation's agreed values and objectives.

### **Helping resource and deliver organisational objectives**

There is a growing trend for Chief Financial Officers to hold a range of different responsibilities beyond finance, including managing other services or leading change programmes. Whilst these can develop the individual as a corporate manager, organisations must not let the Chief Financial Officer's core financial responsibilities be compromised through creating too wide a portfolio. Dilution and/or overload in the role of the Chief Financial Officer can result in poor financial outcomes for the organisation. Setting out the core Chief Financial Officer responsibilities in this Statement is intended to allow public service organisations and their Chief Financial Officers to assess their job descriptions to ensure that their core finance responsibilities can be properly performed.

Public service organisations also need to engage with partners through a range of collaborative or commissioned relationships in order to realise their goals. Partnership working and the focus on community outcomes mean that the Chief Financial Officer needs to understand the financial risks and potential liabilities that may impact on the organisation and have appropriate involvement in partnerships' business decisions. The Chief Financial Officer must therefore work to develop strong and constructive working relationships with key decision makers in partner organisations.

### **Delivering the organisation's strategic objectives sustainably and in the public interest**

Public service organisations have a corporate responsibility to operate within available resources and to remain financially sound over the short, medium and longer term. Maximising public value involves an appreciation of user needs, expectations and preferences, and the planning process must allow for their involvement and influence. The internal process to determine priorities often then needs to grapple with service rationing and difficult trade-offs between different groups of service users, as well as between present and future benefits. The overarching long term need to match financial resources to the organisation's purposes and policies, within constraints of affordability, taken with the responsibility to citizens and taxpayers for financial stewardship, mean that the Chief Financial Officer must contribute actively to cross organisational issues and to corporate decision making.

Public finance is complex and highly regulated, and the Chief Financial Officer must contribute expert technical advice and interpretation. Chief Financial Officers must act in the public interest, even if necessary against a perceived organisational interest. In some types of public service organisation, including local authorities, this professional obligation is given statutory backing, and a fiduciary duty is established in case law. In *Attorney General v De Winton 1906*, it was established that the Treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers. This remains applicable to the Responsible Financial Officer.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities. In Northern Ireland, section 54 of the Local Government Act (Northern Ireland) 1972 requires that "A council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief financial officer."

The RFO's duties in England and Wales were significantly extended by section 114 of the 1988 Act which requires a report to all the local authority's members to be made by that officer, in consultation with the monitoring officer and head of paid service<sup>15</sup>, if there is or is likely to be unlawful expenditure or an unbalanced budget. Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. In

Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972.

As holders of the 'red card', the Chief Financial Officer must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the organisation remains a going concern. To ensure that the necessary corrective action is implemented, the Chief Financial Officer must have direct access to the Chief Executive, other Leadership Team members, the Audit Committee and also to external audit.



## Governance Requirements

Set out a clear statement of the respective roles and responsibilities of the Leadership Team and its members individually.

Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members.

If different organisational arrangements are adopted, explain the reasons publicly, together with how these deliver the same impact.

Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the Board, and ensure that it is monitored and updated.

Ensure that organisation's governance arrangements allow the CFO:

- to bring influence to bear on all material business decisions; and
- direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit.

Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised.

Assess the financial skills required by members of the Leadership Team and commit to develop those skills to enable their roles to be carried out effectively.



## Core CFO responsibilities

Contributing to the effective leadership of the organisation, maintaining focus on its purpose and vision through rigorous analysis and challenge.

Contributing to the effective corporate management of the organisation, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.

Supporting the effective governance of the organisation through development of

- corporate governance arrangements, risk management and reporting framework; and
- corporate decision making arrangements.

Leading or promoting change programmes within the organisation.

Leading development of a medium term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.

Ensuring that there are sound medium and long term financial plans for both revenue and capital to support the development of the authority's plans and strategies and that these are subject to regular review to confirm the continuing relevance of assumptions used.

Ensuring that advice is provided on the levels of reserves and balances in line with good practice guidance<sup>5</sup>.

Ensuring compliance with relevant CIPFA Codes including a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code.

Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance.

Ensuring the medium term financial strategy reflects joint planning with partners and other stakeholders.



## Personal skills and professional standards

Role model, energetic, determined, positive, robust and resilient leadership, able to inspire confidence and respect, and exemplify high standards of conduct.

Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.

Build robust relationships both internally and externally.

Work effectively with other Leadership Team members with political awareness and sensitivity.

Support collective ownership of strategy, risks and delivery.

Address and deal effectively with difficult situations.

Implement best practice in change management and leadership.

Balance conflicting pressures and needs, including short and longer term trade-offs.

Demonstrate strong commitment to innovation and performance improvement.

Manage a broad portfolio of services to meet the needs of diverse communities.

Maintain an appropriate balance between the deeper financial aspects of the CFO role and the need to develop and retain a broader focus on the environment and stakeholder expectations and needs.

Comply with the IFAC Code of Ethics for Professional Accountants, as implemented by local regulations and accountancy bodies, as well as other ethical standards that are applicable to them by reason of their professional status. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

Impartiality is a further fundamental requirement of those operating in the public services.

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<sup>5</sup> CIPFA LAAP Bulletin on Local Authority Reserves

# principle 2

**The CFO in a public service organisation must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's overall financial strategy.**

## **Responsibility for financial strategy**

No organisation can achieve its goals effectively without proper structures for allocating and optimising the use of resources. The centrality of finance means the CFO must play the lead role in advising and supporting the leadership team in turning policy aspirations into reality by aligning financial planning with the vision and strategic objectives for the organisation.

Within the overall corporate governance and management structure, the CFO has direct responsibility for leading development and implementation of the financial strategy necessary to deliver the organisation's strategic objectives sustainably. The CFO must therefore work closely with decision makers to establish a medium to long term strategy that ensures the financial sustainability of the organisation.

The CFO must also develop and manage resource allocation models to optimise service outputs and community benefits within funding constraints and any tax raising limits. In implementing these models, the CFO must ensure that the financial and risk implications of policy initiatives are analysed and appropriately addressed. Models must encompass capital investment programmes and annual operations, as well as financial targets and benchmarks. They must also take into account future commitments, resources available and the desirable levels of reserves, to ensure that the organisation's finances remain sustainable.

The statutory guidance<sup>6</sup> issued by the Secretary of State under the 2000 Local Government Act (England and Wales) advises that local authorities will need to ensure that the CFO and the monitoring officer have access as necessary to meetings and papers and that members must consult with him/her regularly<sup>7</sup>. The advice continues that the finance director will have an important role in the management of the local authority in particular by

- contributing to corporate management in particular to the provision of professional financial advice
- maintaining financial administration and stewardship
- supporting and advising all members and officers in their respective roles
- providing financial information to the media, members of the public and the community.

There is no equivalent legislative requirement in Scotland, but the guidance is equally relevant.

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<sup>6</sup> New Council Constitutions, Local Government Act 2000 – guidance to English local authorities, chapter 8 – officers' roles under executive arrangements, DETR, October 2000

<sup>7</sup> In Wales the statutory guidance does not include this reference but implies that this should be the case.

## **Influencing decision making**

Public service organisations must be rigorous in their decision making, be explicit about the reasons for their decisions and record the supporting information and expected impact. This requires the CFO to be actively involved in, and able to bring influence to bear on all material business decisions whenever and wherever they are taken.

The CFO must be able to advise the Leadership Team directly, in order to discharge responsibilities in relation to the organisation's financial health and long term viability. The CFO must therefore be a persuasive and confident communicator with the status and credibility to challenge others, and influence material business decisions. The CFO's advice and reports to the Leadership Team must be clear, concise, relevant and timely, highlighting issues that the team needs to be aware of, and options for action.

The CFO must also work to develop strong and constructive working relationships with both the executive and non executive members of the organisation's leadership, creating mutual respect and effective communication. Providing information and advice to elected officials as a public servant will call on an understanding of ethics, the wider public interest, and diplomacy.

The Local Government Act 2003 and Local Government Scotland Act 2003 emphasise the importance of sound and effective financial management. In relation to capital financing there is a statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment. Advice on fulfilling this responsibility is set out in CIPFA's Prudential Code<sup>8</sup>.

In England and Wales there is also a statutory duty on the CFO to report to the authority, at the time the budget is considered and the council tax set, on the robustness of the budget estimates and the adequacy of financial reserves. This is a public report. In addition, the Secretary of State in England or the National Assembly for Wales have reserve powers to specify in regulations a statutory minimum level of reserves that will be used if authorities fail to remedy deficiencies or run down reserves against the advice of the CFO. There is no equivalent specific legislation in Scotland.

The CFO also has a key role to play in fulfilling the requirements of the statutory duty<sup>9</sup> to keep their finances under review during the year and take action if there is evidence that financial pressures will result in a budget overspend or if there is a shortfall in income.

## **Financial information for decision makers**

At all levels in the organisation those taking decisions must be presented with relevant, objective and reliable financial analysis and advice, clearly setting out the financial implications and risks.

The CFO has an important role in ensuring necessary financial information and advice is provided to the Leadership Team and decision makers at all levels across the organisation. Meaningful financial analysis and robust and impartial interpretation is a key component in performance management, asset management, investment appraisal, risk management and control.

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<sup>8</sup> The Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition 2009)

<sup>9</sup> Section 28, Local Government Act 2003

Although not a specific responsibility for CFOs alone they – along with the monitoring officer and chief legal officer – should be alert to the ‘Wednesbury’ rules<sup>10</sup> which emphasise the importance of ensuring that when developing policy all relevant matters are properly considered. The judgement in the case stated that an authority’s action in exercise of a statutory discretion would only be regarded unreasonable, in excess of the powers given by Parliament and therefore invalid if

- in making its decision it took into account matters which it ought not to take into account, or
- it did not take into account matters which it should have taken into account, or
- even if the two previous conditions were satisfied the conclusion was so unreasonable that no reasonable authority could ever come to it.

These principles apply regardless of whether decisions on policy are taken by individual members or collectively. In order to demonstrate that these principles have been observed it is important that policy decisions and the associated advice are – as a matter of routine – well and clearly documented. The ‘Wednesbury’ rules do not apply specifically in Scotland but demonstrate good governance and proper decision making.

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<sup>10</sup> Associated Provincial Picture Houses v Wednesbury Corporation (1948).



## Governance Requirements

Establish a medium term business and financial planning process to deliver the organisation's strategic objectives, including:

- a medium term financial strategy to ensure sustainable finances;
- a robust annual budget process that ensures financial balance; and
- a monitoring process that enables this to be delivered.

Ensure that these are subject to regular review to confirm the continuing relevance of assumptions used.

Ensure that professional advice on matters that have financial implications is available and recorded well in advance of decision making and used appropriately.

Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance.

Ensure that those making decisions are provided with information that is fit for the purpose –relevant, timely and giving clear explanations of financial issues and their implications.

Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use.

Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary.

Ensure that advice is provided on the levels of reserves and balances in line with good practice guidance<sup>11</sup>

Ensure compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code.

Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnerships arrangements, outsourcing or where the authority is acting in an enabling role.

Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority.

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<sup>11</sup> LAAP 77 - Local Authority Reserves and Balances, <http://www.cipfa.org.uk/pt/download/laap77.pdf>



## Core CFO responsibilities

### Responsibility for financial strategy

Agreeing the financial framework with sponsoring organisations and planning delivery against the defined strategic and operational criteria.

Maintaining a long term financial strategy to underpin the organisation's financial viability within the agreed performance framework.

Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.

Appraising and advising on commercial opportunities and financial targets.

Developing and maintaining an effective resource allocation model to deliver business priorities.

Leading on asset and balance sheet management.

Co-ordinating the planning and budgeting processes.

### Influencing decision making

Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.

Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.

Ensuring that efficient arrangements are in place and sufficient resources available to provide accurate, complete and timely advice to support councillors' strategy development.

Ensuring that clear, timely, accurate advice is provided to the executive in setting the funding plan/budget.

Ensuring that advice is provided to the scrutiny function in considering the funding plan/budget.

Ensuring that the organisation's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.

Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.

### Financial information for decision makers

Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.

Preparing timely management accounts.

Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.



## Personal skills and professional standards

Chief Financial Officers 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.
- 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.
- responsibilities for budget management and control are unambiguously allocated, that commitments are properly authorised, and that budgets are related to clear objectives and outputs.
- 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.

Implement other appropriate management, business and strategic planning techniques.

Link financial strategy and overall strategy.

Demonstrate a willingness to take and stick to difficult decisions – even under pressure.

Take ownership of relevant financial and business risks.

Network effectively within the organisation to ensure awareness of all material business decisions to which CFO input may be necessary.

Role model persuasive and concise communication with a wide range of audiences internally and externally.

Provide clear, authoritative and impartial professional advice and objective financial analysis and interpretation of complex situations.

Apply relevant statutory, regulatory and professional standards both personal and organisational.

Demonstrate a strong desire to innovate and add value.

Challenge effectively, and give and receive constructive feedback.

Operate with sensitivity in a political environment.

# principle 3

**The Chief Financial Officer in a public service organisation must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.**

## **Promotion and delivery of good financial management**

Good financial management is fundamental to establishing confidence in the public services and good relationships with the taxpayer and other funders. The Leadership Team collectively needs to set the tone that financial management is core to achieving strategic aims, and to demonstrate that public money is used well. Nevertheless it is the Chief Financial Officer who must take the lead in establishing a strong framework for implementing and maintaining good financial management across the authority. The Chief Financial Officer will be instrumental in assessing the existing organisational style of financial management and the improvements needed to ensure it aligns with the authority's strategic direction.

Financial management is the business of the whole authority. When the Leadership Team, managers and the finance function all fulfil their financial management responsibilities successfully, they collectively create the financially literate and adept organisation. The Chief Financial Officer must actively promote financial literacy throughout the authority, so that the Leadership Team and managers can discharge their financial management responsibilities, alongside their wider responsibilities in relation to risk and performance management.

## **Best Value and Value for money**

The Chief Financial Officer has a key role to play in balancing control and compliance with value creation and performance. Better value for money releases resources that can be recycled into higher priorities, without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the Chief Financial Officer's role in the local authority.

With the foundations in place, good financial management will focus on stretching limited resources to maximise value for the public service. Value for money (economy, efficiency and effectiveness) should be the concern of all managers, but the Chief Financial Officer will need to take the lead in coordinating and facilitating a culture of efficiency and value for money. This will involve approaches and techniques such as

- Enabling the authority to measure value for money, and making sure that it has the information to review value for money and performance effectively;

- Advising on appropriate strategies for managing assets and stretching utilisation, and the productive use of other resources;

- Providing leadership in using and developing efficiency tools and techniques, including benchmarking, IT, shared services, process analysis and cost management, collaborating with others where this is more efficient, effective or economical; and

- Ensuring the rigorous financial appraisal and oversight of change programmes, income generation proposals and investment projects.

## **Safeguarding public money**

The Chief Financial Officer must lead the implementation and maintenance of a framework of financial controls and procedures for managing financial risks, and must determine accounting processes and oversee financial management procedures that enable the authority to budget and manage within its overall resources. At the most fundamental level this means ensuring robust systems of risk management and internal control, that financial control is exercised consistently, and that the organisation implements appropriate measures to protect its assets from fraud and loss.

The Chief Financial Officer also has a specific role with regard to stewardship. This includes ensuring that the governance structures codify financial control, internal control, risk management and assurance, as well as defining a framework of financial accountabilities and reporting. In addition to the finance director's responsibilities to the authority, a wider role also exists in relation to the general public. The local authority is regarded as the trustee of local citizens' money, and the finance director has the prime obligation and duty to them to manage the authority's resources prudently on their behalf as established in the 1906 de Winton case.

In effect this means that the finance director has a personal responsibility for the stewardship and safeguarding of public money and for demonstrating that high standards of probity exist. Strong financial management, accurate financial reporting and effective financial controls are therefore central to the finance director's role in local government. This role was strengthened by the Local Government Finance Act 1988 (in England and Wales), which requires the finance director to report inappropriate financial management as well as wrongdoing.

Section 114 of the 1988 Act requires a report to all the local authority's members to be made by that officer, in consultation with the monitoring officer and head of paid service<sup>12</sup>, if there is or is likely to be unlawful expenditure or an unbalanced budget. Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972. Further guidance recommending courses of action to be followed when a report under s114 may be required is attached at appendix C to this Statement. Although section 114 does not apply to Scotland or Northern Ireland the principles that underlie it and the actions proposed in appendix C are recommended to finance directors as a means of discharging their overall responsibility for sound financial management.

Consistency of standards and transparency in financial activities are essential. In this context, CIPFA's view is that the statutory role of the CFO does not stop at the boundaries of the local authority but extends into its partnerships, devolved arrangements, joint ventures and companies in which the authority has an interest.

### **Assurance and scrutiny**

Accountability for public expenditure is a core requirement for local authorities. They are held accountable by intermediary stakeholders, such as scrutiny groups, service inspectorates and external auditors, and by primary stakeholders: the citizens, service users, funders and taxpayers.

Managing information flows is a key component of the Chief Financial Officer's role as an ambassador for the authority on financial matters and in building relationships with stakeholders. The Chief Financial Officer must also provide information and advice to those who officially scrutinise and review the organisation; funders, regulators, and external audit, and any group which exercises scrutiny internally. The community, taxpayers and the press also expect information.

Internal audit is an important independent internal scrutiny activity. The Chief Financial Officer must support the authority's internal audit arrangements, whether the function reports directly

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<sup>12</sup> Since July 2001 in England and Wales the Monitoring Officer cannot also be the Head of Paid Service or the Chief Financial Officer – see schedule 5, Para 24 of the Local Government Act 2000 which inserts a new subsection 1A in section 5 of the Local Government and Housing Act 1989. In Scotland section 5(1) para b of the Local Government and Housing Act 1989 makes it each Council's duty to appoint a monitoring officer (MO) – the MO may be the head of paid service but shall not be the authority's CFO.

to the Chief Financial Officer or the Chief Executive, and ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

Public service providers face a variety of regulatory requirements and standards for external financial reporting, while measures of value are expressed both as financial and as non-financial performance targets. The role of the Chief Financial Officer in external reporting is to meet the reporting requirements relevant to the organisation and to apply professional good practice, conscious of the needs of users. External financial reporting must be of good quality, supported by analysis and documentation and should receive an unqualified audit opinion. This will be facilitated if the Chief Financial Officer maintains a constructive professional relationship with external auditors and inspectors.

The Accounts and Audit Regulations 2003 (England and Wales) and, in Scotland, the Local Authority Accounts (Scotland) Regulations 1985 impose responsibilities on the finance director relating to accounting records and supporting information, control systems and the statement of accounts.

A key feature of the Regulations in England and Wales is the requirement for internal audit. Regulation 6 requires that a 'relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control'. Although there is no specific reference to internal audit for Scotland the successful discharge of the finance director's responsibilities depends in part on effective internal audit.



## Governance Requirements

Make the CFO responsible for ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control.

Ensure that systems and processes for financial administration, financial control and protection of the organisation's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.

Ensure that the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes. Ensuring that these controls are an integral part of the authority's underlying framework of corporate governance and that they are reflected in its local code.

Address the organisation's arrangements for financial and internal control and for managing risk in Annual Governance Reports.

Publish annual accounts on a timely basis to communicate the organisation's activities and achievements, its financial position and performance.

Maintain and resource an effective internal audit function.

Develop and maintain an effective Audit Committee.

Ensure that the organisation makes best use of resources and that taxpayers and/or service users receive value for money.

Embed financial competencies in person specifications and appraisals.

Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out effectively.

Ensure that councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills, and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities.



## Core CFO responsibilities

### Promotion of financial management

Assessing the organisation's financial management style and the improvements needed to ensure it aligns with the organisation's strategic direction.

Actively promoting financial literacy throughout the organisation.

Assisting the development of a protocol which clearly sets out the roles and responsibilities of both democratically elected councillors, whether acting in executive or scrutiny roles, and of officers for financial management, including delegated authority/powers.

### **Value for money**

Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function.

Advising on the financial thresholds for 'key' decisions where there is a requirement to do so.

Developing and maintaining appropriate asset management and procurement strategies.

Managing long term commercial contract value.

### **Safeguarding public money**

Applying strong internal controls in all areas of financial management, risk management and asset control.

Signing the authority's published statement on internal financial control in line with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom.

Establishing budgets, financial targets and performance indicators to help assess delivery.

Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.

Ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice.

Ensuring that delegated financial authorities are respected.

Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.

Overseeing of capital projects and post completion reviews.

Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.

Ensuring the effective management of cash flows, borrowings and investments of the authority's own funds or the pension and trust funds it manages on behalf of others; ensuring the effective management of associated risks; pursuing optimum performance or return consistent with those risks.

Implementing appropriate measures to prevent and detect fraud and corruption.

Establishing proportionate business continuity arrangements for financial processes and information.

Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.

### **Assurance and scrutiny**

Reporting performance of both the organisation and its partnerships to the board and other parties as required.

Ensuring that financial and performance information presented to members of the public, the community and the media covering resources, financial strategy,

service plans, targets and performance is accurate, clear, relevant, robust and objective.

Supporting and advising the Audit Committee and relevant scrutiny groups.

Ensuring that clear, timely, accurate advice is provided to the executive and the scrutiny functions on what considerations can legitimately influence decisions on the allocation of resources, and what cannot.

Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.

Ensuring that the financial statements are prepared on a timely basis, meet the requirements of the law, financial reporting standards and professional standards as reflected in the Code of Practice on Local Authority Accounting in the United Kingdom developed by the CIPFA/LASAAC Joint Committee.

Certifying the annual statement of accounts.

Ensuring that arrangements are in place so that other accounts and grant claims (including those where the authority is the accountable body for community led projects) meet the requirements of the law and of other partner organisations and meet the relevant terms and conditions of schemes

Liaising with the external auditor.



## Personal skills and professional standards

Chief Financial Officers 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.
- that payments, including benefits and taxation, are made on time, accurately and in accordance with legal requirements.
- Cash is handled with special care to avoid loss, particularly loss through theft and secure arrangements are in place to deal with the handling of electronic or other cash-less transactions.
- the accounting and financial information systems provide an accessible, complete, comprehensive, consistent and accurate record of the organisation's financial transactions.
- all financial reports are relevant, reliable and consistent, are compatible with the organisation's accounting and financial information systems available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the organisation.
- Within the specific legislative framework for each organisation, 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.
- Treasury management is carried out in accordance with CIPFA's treasury management code and that effective treasury management arrangements are in place.

Generate 'buy-in' to, and support delivery of, good financial management across the organisation.

Develop and sustain partnerships, and engage effectively in collaboration.

Deploy effective facilitation and meeting skills.

Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.

Place stewardship and probity as the bedrock for management of the organisation's finances.

# principle 4

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

## **Meeting the finance needs of the business**

The organisation of finance functions is changing rapidly. Traditionally they have been centralised services, but increasingly they include devolved finance teams in business areas. Arrangements may also now include outsourced functions, or services shared between organisations.

Whatever the structure, a strong customer focus both externally and internally must be a key feature of the way the finance function does business. It must support the organisation's broader development agenda, by appraising investment options and change programmes and contributing creative financial solutions within an effective risk management framework.

The finance function must also have a firm grasp of the organisation's financial position and performance. The Chief Financial Officer must ensure that there is sufficient depth of financial expertise, supported by effective systems, to discharge this responsibility and challenge those responsible for the organisation's activities to account for their financial performance. The resources available must be proportionate to the complexity of the financial environment.

Section 114(7) of the Local Government Finance Act 1988 requires authorities in England and Wales to provide their Chief Financial Officer (Chief Financial Officer) with 'such staff, accommodation and other resources as are in his opinion sufficient to allow his duties under this section (ie s114) to be performed'. There is no equivalent requirement in Scotland or Northern Ireland.

## **Appropriately developed finance skills**

The Chief Financial Officer must promote financial literacy throughout the organisation, including championing training and development of relevant skills at all levels. However the Chief Financial Officer has a particular responsibility for learning and development amongst finance staff in order to ensure that both current and likely future finance skill needs are addressed. This will include identifying the competencies needed by the finance function, including specialist skills, and ensuring it can access the skills and experience to exercise stewardship of public finances, develop financial performance and contribute effectively to new organisational directions and innovation.

The Chief Financial Officer must ensure that the Head of Profession role for accountants and finance specialists organisation-wide is properly discharged in order to ensure compliance with regulatory and professional standards. Exercising leadership on financial matters in a devolved environment will require a documented line of professional accountability to the Chief Financial Officer, where this is not a direct line management relationship.



## Governance Requirements

Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.

Ensure there is a line of professional accountability to the CFO for finance staff throughout the organisation.



## Core CFO responsibilities

Leading and directing the finance function so that it makes a full contribution to and meets the needs of the business.

Determining the resources, expertise and systems for the finance function that are sufficient to meet business needs and negotiating these within the overall financial framework.

Implementing robust processes for recruitment of finance staff and/or outsourcing of functions.

Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.

Seeking continuous improvement in the finance function.

Identifying and equipping finance staff, managers and the Leadership Team with the financial competencies and expertise needed to manage the business both currently and in the future.

Ensuring that the Head of Profession role for all finance staff in the organisation is properly discharged.

Acting as the final arbiter on application of professional standards.



## Personal skills and professional standards

Create, communicate and implement a vision for the finance function.

Role model a customer focussed culture within the finance function.

Establish an open culture, built on effective coaching and a “no blame” approach.

Promote effective communication within the finance department, across the broader organisation and with external stakeholders.

Apply strong project planning and process management skills.

Set and monitor meaningful performance objectives for the finance team.

Role model effective staff performance management.

Coach and support staff in both technical and personal development.

Promote high standards of ethical behaviour, probity, integrity and honesty.

Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the finance function.

Promote discussion on current financial and professional issues and their implications.

# principle 5

## **The Chief Financial Officer in a public service organisation must be professionally qualified and suitably experienced.**

### **Demonstrating professional and interpersonal skills**

The Chief Financial Officer must be able to demonstrate their own professional standing to exercise financial leadership throughout the organisation. As a member of a professional body, the Chief Financial Officer's skills, knowledge and expertise will have been tested by examination and must be continuously developed in a structured and monitored context. The Chief Financial Officer must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and promote these throughout the finance function.<sup>13</sup>

The Chief Financial Officer must communicate complex financial information in a clear and credible way. They should be able to operate effectively in different modes including directing, influencing, evaluating and informing. The Chief Financial Officer must also have the confidence to give impartial and objective advice even if it may be unwelcome, and be sufficiently forceful to intervene with authority if financial or ethical principles need to be asserted or defended.

The officer appointed as the RFO must, by virtue of section 113 of the Local Government Finance Act 1988 in England and Wales, be a member of a specified accountancy body<sup>14</sup>. There is no equivalent statutory requirement in Northern Ireland and Scotland although in both cases, this is widely acknowledged to be good practice.

*[The statutory role must be performed by an 'officer' of the authority. Although 'officer' is not defined the legal view is that the terms 'staff' and 'officer' in the Local Government Act 1972 and elsewhere are intended to embrace all employees of local authorities<sup>14</sup>. It is permissible for an authority to procure non-statutory financial management services from an individual on the basis of a service contract.]*

### **Applying business and professional experience**

The Chief Financial Officer must have an understanding and commitment to the wider business, looking beyond narrow financial objectives, to inspire respect, confidence and trust amongst colleagues, inspectors and stakeholders. In practice this means being creative and constructive in strategic roles and effective in management responsibilities, with a sound grasp of approaches such as performance management and project leadership.

The Chief Financial Officer must understand how and when to apply the tools and techniques of financial analysis in support of business decisions in order to evaluate proposals and to offer well founded and expert advice. Such techniques include strategic analysis, review of sector best practice, benchmarking, option appraisal, performance measurement, and risk assessment. However data is not always clear cut and the Chief Financial Officer must also be able to apply judgement to imperfect information.

The Chief Financial Officer must have a good understanding of public sector finance and its regulatory environment and comply with standards formulated through rigorous due process in

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<sup>13</sup> IFAC: Code of Ethics, 2005

<sup>14</sup> Defined to mean a qualified member of one of the six bodies comprising the Consultative Committee of Accountancy Bodies (CCAB) in the UK and Ireland, that is

Chartered Institute of Public Finance and Accountancy  
The Institute of Chartered Accountants in England and Wales  
The Institute of Chartered Accountants of Scotland  
The Institute of Chartered Accountants in Ireland  
Chartered Institute of Management Accountants  
The Association of Chartered Certified Accountants.

support of the public interest to support the Leadership Team effectively. The Chief Financial Officer must also have a good understanding of the principles of financial management, and personally set a tone for the organisation that finance matters and is a key part of everyone's job throughout the organisation.



## Governance Requirements

Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.

Ensure that the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role.



## Personal skills and professional standards

Be a member of an accountancy body recognised by the International Federation of Accountants (IFAC), qualified through examination, and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers.

Adhere to international standards set by IFAC on:

- ethics
- Continuing Professional Development.

Demonstrate IT literacy.

Have relevant prior experience of financial management in the public services or private sector.

Understand public service finance and its regulatory environment.

Apply the principles of corporate finance, economics, risk management and accounting.

Understand personal and professional strengths.

Undertake appropriate development or obtain relevant experience in order to meet the requirements of the non-financial areas of the role.

**Guidance on the Application of the Requirement to 'Comply or Explain'**

This section will be consulted on separately

**Legislative Requirements**

To be completed following legal advice on the statutory roles and requirements.

FLOW CHART FOR SECTION 114 LOCAL GOVERNMENT FINANCE ACT 1988 (ENGLAND AND WALES) PROCEDURES

