

THE ROLE OF THE FINANCE DIRECTOR IN PUBLIC SERVICE ORGANISATIONS

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AT THE HEART OF
PUBLIC SERVICES



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FOREWORD

The Finance Director occupies a critically important position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. In the public services these stewardship responsibilities have an extra edge because public money is at stake. Taxpayers are understandably concerned and disappointed when they see public services using resources wastefully.

But if stewardship responsibilities are a key component of the Finance Director's role in Public Service Organisations, what are the other duties and responsibilities that sit alongside? What other aspects of the organisation's activities and business must the Finance Director be able to contribute to and influence in order to fulfil the role effectively and to meet organisational and public expectations?

What about supporting the top team in developing its strategy for the organisation? What about supporting the business to ensure that the strategy is implemented successfully and sustainably? What about delivering the right information and advice to the right people at the right time to influence and support good, robust decision making? What about designing and running strong effective performance measurement and management systems? What about driving high impact efficiency programmes? What about dealing with the inherent tensions between enabling business transformation on one hand, and ensuring compliance on the other, or in saving costs by centralising, while enabling greater devolution?

In uncertain times, and with a rapidly changing global economy, the Finance Director role must include leadership and business improvement. But the list of the other potential roles that the Finance Director might take on is almost endless with the consequence that different organisations inevitably make different choices. This only adds further importance to the need to be clear about the absolutely essential ingredients that must be in the mix. Without clarity about these fundamental components of the core job, we run the risk of Finance Directors who cannot reach all of the key levers to perform their role effectively, or address challenges when they arise.

In attempting to address these issues CIPFA has developed the attached Statement on the Role of the Finance Director in Public Service Organisations. It sets out an overarching principles-based framework that is intended to apply to all Finance Directors irrespective of the particular part of the public services in which they work. The Statement draws on the best practice and regulatory requirements in the various sub-sectors of the public services, as well as the requirements of CIPFA and other professional accountancy bodies' codes of ethics and professional standards.

In CIPFA's view the Statement covers ground that is critically important for the good governance of all public service organisations. For that reason, our aim is to encourage sector-wide use of the Statement as a framework for reviewing arrangements at individual organisation level. Moreover, for transparency, we believe that organisations should report publicly in annual governance statements on any areas in which local arrangements do not conform with the CIPFA Statement. Providing this information openly on a 'comply or explain' basis will help to assure stakeholders and the public that the organisation has given proper consideration to these vitally important aspects of its governance arrangements.

The Statement is also aimed at individual finance professionals. By articulating the personal qualities and professional responsibilities that are crucial to success as an Finance Director, it provides an important source of reference for personal development for aspiring Finance Directors as well as for those already in post.

At this stage the Statement is a draft for wide consultation. We hope that all interested parties will consider its content and proposed use carefully and let us have their views and comments by 27 February 2009.

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CIPFA Role of the Public Services Director of Finance Panel

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BACKGROUND

The public service context

Citizen, service user, taxpayer: all of us occupy one or other of these roles at different times. Each has its different priorities and emphases, but it is common ground that we expect high standards of service, on an improving trajectory, within affordable tax levels and that we demand exemplary standards of behaviour where public money is spent. This has generated a succession of initiatives, from government and other institutions, aimed at extracting maximum value from each pound of public money. These have variously emphasised sustainability, efficiency and the productive use of resources, often reinforced by inspection and assurance regimes, whose degree of intensity has ebbed and flowed over time.

The public services also face regular structural change. The prevalence of complex social issues that require a coordinated response is increasingly bringing together organisations, with different structures and objectives in various forms of partnership and other governance arrangements. Expectations of contestability and competition as drivers of value for money are also blurring the boundaries between commercial and public spheres. At the same time as the variety of governance arrangements even among similar types of bodies has increased.

The changing political environment within which decisions are taken and services delivered, the opportunities of new technology, social and cultural trends, both generally and among finance professionals, all bring fresh challenges and uncertainties, but the enduring task of the public services is to resolve the tension between ever increasing public expectations and increasingly limited funding.

Good Governance and strong Financial Management

The focus on ambition and organisational capacity resulting from the complex environment within which public service organisations operate has strengthened expectations of effective and responsible governance. Good governance in a public service organisation requires a focus on the organisation's purpose and its intended social outcomes. It also carries a specific obligation to citizens, taxpayers and service users to make best use of resources and ensure value for money. Financial management has been identified as a core corporate discipline in all governance discussion since the Cadbury Report in 1992. The Hampel Report in 1998 further developed corporate governance concepts and laid the foundation for subsequent debate and guidance in the public services.

In an explicit parallel to Hampel's statement about financial management in the private sector, financial management has been defined for the public services as, *'the system by which the financial aspects of a public body's business are directed and controlled to support the delivery of the organisation's goals.'*¹ The role of the Finance Director is therefore closely allied to corporate governance and to the duties of public service leaders to advise on the allocation of resources, to manage resource use and performance objectives, to maintain a system of controls and to assess and manage risk.² The dual aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of resources.

The key role played by the Finance Director

The Finance Director, as the organisation's most senior finance professional, occupies a pivotal role, both for external stakeholders and within the leadership team. Finance Directors everywhere have a responsibility to ensure that their organisations control and manage money well and that their strategic planning and decision making are supported by sound analysis. In the public service context Finance Directors must also meet the demands of openness and accountability in decision making, balancing competition for limited resources across a range of worthwhile objectives, delivering value for money and the lawful care of taxpayers' money.

¹ CIPFA FM Model introduction 2006

² See also Corporate Governance in Central Government departments - Code of Practice: HM Treasury

It is these expectations, combined with the personal qualities and leadership and transformational skills required for them to be successfully delivered, that have shaped the CIPFA Statement on the Role of the Finance Director in Public Service Organisations.

CIPFA Statement approach and structure

Public service organisations have a variety of legal and regulatory structures and range in size and scope of activities delivered. The CIPFA Statement on the Role of the Finance Director in Public Service Organisations therefore adopts a 'substance over form' approach, focussing on the principles that capture the essential characteristics of the Finance Director role in any public service organisation.

The Statement defines the core principles, activities and behaviours that belong to the role of the Finance Director in public service organisations. It adopts a 'drill down' approach, addressing the Finance Director's different roles:

- Within the leadership team contributing to the development and delivery of corporate strategy;
- Ensuring that the financial risks and consequences are factored into all material business decisions that the organisation takes; and
- Delivering strong financial management throughout the organisation.

Delivering these differing roles requires a range of personal qualities, as well as strong support from both the finance team and the organisation as a whole. The Statement therefore sets out a compliance framework covering all these areas in terms both of organisational requirements and of individual responsibilities.

CIPFA STATEMENT ON THE ROLE OF THE FINANCE DIRECTOR IN PUBLIC SERVICE ORGANISATIONS

The Finance Director of 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;*
- *must be actively involved in, and able to bring influence to bear on all material business decisions, to ensure that the immediate and longer term implications, opportunities and risks are fully considered, and consistent with the financial strategy; and*
- *must lead the promotion and delivery of good financial management throughout the organisation, so that public money is safeguarded at all times, and used appropriately, economically, efficiently and effectively.*

To deliver these responsibilities the Finance Director:

- *must be professionally qualified and suitably experienced; and*
- *must lead and direct a finance function that is resourced to be fit for purpose and appropriately developed.*

The Statement provides an overarching framework that draws on the key requirements of CIPFA and the other professional accountancy bodies' codes of ethics and professional standards to which the Finance Director as a qualified professional is bound. It sets out organisational requirements, for many of which the Finance Director would take lead responsibility. Individual requirements are presented alongside these to capture behaviours and skills necessary to deliver the role successfully.

The Statement supports CIPFA's work to strengthen governance and financial management across the public services. Its primary purpose is to enable board members of public service organisations, whether elected, executive or non-executive, to check their existing arrangements against a defined framework. Whilst each organisation will determine its own governance arrangements within its relevant regulatory environment, these generally include the well established 'comply or explain' practice in public reporting. CIPFA believes that organisations should use the Statement as the framework to check their existing arrangements, and that they should report publically on compliance through their annual governance statements to demonstrate commitment to best practice in both governance and financial management.

The Statement will not have the status of a CIPFA Code. Nor will it replace the sector-specific guidance or the codes and professional standards that underpin the accountancy bodies' disciplinary processes. Instead it should help guide both aspiring and current Finance Directors, by providing a summary of the professional responsibilities entailed in the role, and providing a focus for their own personal skills development.

PRINCIPLE 1:

The Finance Director of 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 objectives sustainably and in the public interest.

Commentary

Key member of the leadership team

In recognition of the centrality of financial issues to organisational success it is UK government policy that all government departments should have a professional Finance Director reporting to the permanent secretary with a seat on the departmental board, at a level equivalent to other Board members.³ In *Managing Public Money*, Annex 4.1, HM Treasury recommends 'It is good practice for all other public sector organisations to do the same, and to operate the same standard'. This means that the Finance Director should be professionally qualified, report directly to the paid head of the organisation, and be a member of the senior team that exercises management leadership, with a status equivalent to other members.

CIPFA supports the Treasury's recommendation. CIPFA believes that if a different organisational arrangement is adopted the reasons should be explained publicly, together with how this delivers the same impact.

Developing and implementing strategy

All public service organisations face competition for limited public funds. 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 or commercial activity. Strategic planning will need to be based on an understanding of the organisation's cost drivers and the need to attend to longer term commitments.

No organisation can achieve its goals effectively without strong structures for allocating and optimising the use of resources. The political process to determine priorities may need to grapple with service rationing and difficult trade-offs between different groups of service users and between present and future benefits. Maximising value involves an appreciation of their needs, expectations and preferences, and the planning process must allow for their involvement and influence. The nexus of service planning and funding is at the heart of strategic management. As finance is the common currency across the organisation, the Finance Director must share in the strategy development and implementation responsibilities of the leadership team, including supporting relevant democratic processes.

In enabling the organisation to deliver at the highest levels, the Finance Director must encourage continuous improvement and organisational development, specifically ensuring that those with governance responsibilities have the financial capabilities necessary to deliver their roles effectively. As well as having the fundamental concern for probity and control, the Finance Director must be proactive in managing change and risk, focussed on outcomes and helping to resource the organisation's plans for change and development in the public services it provides.

Helping resource and deliver organisational objectives

The Finance Director must play the lead role in advising and supporting the management leadership in turning policy aspirations into reality by aligning financial planning with the vision for the organisation and its strategic objectives, and will develop resource allocation models to optimise service outputs and community benefits within funding constraints. The Finance Director will plan and manage resource allocation processes, ensuring that the financial and risk implications of policy initiatives are analysed and options evaluated.

To realise their social goals, public service organisations will also need to engage with partners through a range of collaborative or commissioned relationships. Partnership working and the focus on community outcomes mean that the finance director needs to understand the financial risks and potential liabilities that may impact the organisation and ensure appropriate

³ HM Treasury 'Managing Public Money' Annex 4.1. 2007

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involvement in partnerships' business decisions. The Finance Director must therefore work to develop strong and constructive working relationship with leading decision makers in partner organisations.

Delivering 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. The 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 Finance Director must contribute actively to cross organisational issues and to corporate decision making. Public sector finance is complex and highly regulated, and the Finance Director must also contribute expert technical advice and interpretation. Finance Directors, as holders of the 'red card', must exercise a personal responsibility to intervene in spending plans in order to maintain the balance of resources so that the organisation remains a going concern. To report on the financial health of the organisation and, if necessary, to exercise this long stop role, the Finance Director must have direct access to the paid head of the organisation (e.g. permanent secretary or chief executive) and also to external audit.

Key activities

- Contribute to the effective leadership of the organisation, maintaining focus on its purpose and vision
- Contribute to the effective corporate management of the organisation, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.
- Contribute to the effective governance of the organisation
- Provide impartial professional advice and meaningful financial analysis and interpretation, for development of strategy, planning, decision making and control

PRINCIPLE 1:

The Finance Director of 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 objectives sustainably and in the public interest.

Compliance framework

Organisational requirements	Individual responsibilities
<ul style="list-style-type: none">• Ensure that the Finance Director reports directly to the paid head of the organisation as part of the Board.• If a different organisational arrangement is adopted, the reasons should be explained publicly, together with how this delivers the same impact.• Demonstrate adherence to the principles of good governance and NOLAN standards in public life.• Ensure that governance arrangements<ul style="list-style-type: none">– provide for the Finance Director to be consulted on all material business decisions, considering the financial implication of policies and plans– require a record of key decisions, that is explicit about the reasons for decisions and their supporting information and impact– establish a framework of financial regulation, control and assurance– define the framework of financial accountability throughout the organisation– allow the Finance Director and head of audit to advise and report directly to the executive and non executive leaders of the organisation, and to external audit– require an annual governance report• Ensure that people with governance responsibilities develop the financial capabilities to be effective in their roles	<ul style="list-style-type: none">• Demonstrate leadership by behaving in ways that exemplify high standards of conduct and effective governance• Provide impartial professional advice and meaningful financial analysis and interpretation, for formulation of strategy, planning, decision making and control• Comply with the IFAC Code of Ethics for Professional Accountants. 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 service.

PRINCIPLE 2:

The Finance Director of a public service organisation must be actively involved in, and able to bring influence to bear on all material business decisions, to ensure that the immediate and longer term implications, opportunities and risks are fully considered, and consistent with the overall financial strategy.

Commentary

Responsibility for financial strategy

Within the overall corporate management and governance, the Finance Director plays a specific leadership role in developing and implementing the financial strategy necessary to deliver the organisation's strategic objectives sustainably. The Finance Director must therefore work closely with decision makers to establish a medium to long term strategy that ensures the financial viability of the organisation. This will cover capital investment programmes as well as annual operations, and consider financial targets and benchmarks for prudent forward planning. The Finance Director must advise on the robustness of relevant aspects of the governance, planning, performance and risk management frameworks, taking into account future commitments, including capital financing, the resources available and desirable levels of reserves, to ensure that finances remain sustainable.

To support organisational performance the Finance Director must be informed on corporate and strategic issues, and contribute to issues requiring collective, cross organisational prioritisation. The Finance Director must also play an active part in the processes of corporate management, particularly the management of resources, performance and risk. This includes promoting integration of the organisation's business and financial planning so that it aligns resources to meet current and future business objectives and priorities.

Influencing decision making

Public service organisations should be rigorous in their decision making, being explicit about the reasons for their decisions and recording the supporting information and expected impact. The Finance Director must be actively involved in, and able to bring influence to bear on all material business decisions whenever and wherever they are taken. He or she must provide decision makers with relevant, objective and reliable analysis and advice, clearly setting out the financial implications and risks of policies and plans under consideration. The Finance Director must be a persuasive and confident communicator with stature and credibility to command respect and influence at all levels of the organisation. At times he or she may need to challenge decision makers, in the interest of ensuring that public money is well spent. The Finance Director must be able to advise and report directly to top-level decision makers, in order to discharge responsibilities in relation to the organisation's financial health and long term viability, and to enable decision makers to receive the rounded and objective advice that enables them to demonstrate proper practice. The Finance Director must also provide information and advice to those who officially scrutinise and review the organisation.

The Finance Director must be actively involved in and able to influence the principal governance strands that assure that resources are deployed effectively to meet the organisation's strategic aims. These include:

- corporate governance arrangements, framework and reporting
- corporate decision making arrangements
- overall organisational strategy and delivery arrangements;
- risk management
- performance management arrangements
- people
- investment appraisal
- key resource related strategies: information; assets, workforce planning, natural resources
- key transactional processes/systems (e.g. benefits or payments)
- stakeholder engagement
- annual reporting to external stakeholders
- audit strategy and delivery.

PRINCIPLE 2:

The Finance Director of a public service organisation must be actively involved in, and able to bring influence to bear on all material business decisions, to ensure that the immediate and longer term implications, opportunities and risks are fully considered, and consistent with the overall financial strategy.

Key activities

- Lead development of a medium term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery
- Participate in and provide impartial professional advice and meaningful financial analysis and interpretation, to support formulation of strategy, planning, decision making and control through:
 - Implementing financial management policies to underpin long term financial health and sustainable finances, and review performance against them
 - Developing resource allocation strategies to deliver business priorities, based on an understanding of present and longer term needs
 - Ensuring that opportunities and risks are fully considered and consistent with the overall financial strategy
 - Advising on financial performance management and measurement
 - Appraising and advising on commercial opportunities and their financial targets
 - Supporting managers in their operational and budget management roles
 - Supporting and advising the Audit Committee, and scrutiny functions where these operate
- Ensure that balance sheet items are managed
- Ensure that cash flows are managed
- Monitor and report on financial performance, linked to related performance information and strategic objectives, and including the performance of significant partnerships

PRINCIPLE 2:

The Finance Director of a public service organisation must be actively involved in, and able to bring influence to bear on all material business decisions, to ensure that the immediate and longer term implications, opportunities and risks are fully considered, and consistent with the overall financial strategy.

Compliance framework

Organisational requirements	Individual responsibilities
<ul style="list-style-type: none">• Establish a medium term financial strategy to ensure sustainable finances• Establish a medium term business and financial planning process to deliver the organisation’s strategic objectives• Ensure a robust annual budget process that ensures financial balance and a monitoring process that enables this to be delivered• Demonstrate good financial health, operating within budget, with appropriate levels of reserves and balances	<ul style="list-style-type: none">• Comply with personal statutory and regulatory requirements• Comply with relevant financial reporting and other professional standards• Comply with the IFAC Code of Ethics for Professional Accountants. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Impartiality is a further key requirement of those operating in the public service.• Develop communication and negotiating skills that promote effective and strong working relationships.

PRINCIPLE 3:

The Finance Director must lead the promotion and delivery of good financial management throughout the organisation, so that public money is safeguarded at all times, and used appropriately, economically, efficiently and effectively.

Commentary

Promotion and delivery of good financial management

Sound systems of financial management are fundamental to establishing confidence in the public services and good relationships with the taxpayer and other funders. Top management collectively needs to set the tone that financial management is core to achieving strategic aims, and to demonstrating that public money is used well. Nevertheless it is the Finance Director who must take the lead in establishing a strong framework for implementing and maintaining good financial management across the organisation. 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 Finance Director must have oversight of financial and internal controls, and must support the work of the Audit Committee in its assurance function. The Finance Director's reporting and advice to the organisation's leadership must be clear, concise, relevant and timely, and assist them in managing the organisation by highlighting issues that decision makers need to be aware of and offering options for action. The Finance Director must therefore 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. The Finance Director must also actively promote financial literacy throughout the organisation, so that decision makers and managers can discharge their financial management responsibilities, alongside their wider responsibilities in relation to risk and performance management.

Safeguarding public money

Accountability for public expenditure is a core requirement for public service organisations. They are held accountable by intermediary stakeholders, such as scrutiny functions, service inspectorates and external auditors, and by primary stakeholders: the citizens, service users, funders and taxpayers. Different public service providers face a variety of regulatory requirements and standards for external financial reporting, while measures of value delivered are expressed both as financial and as non-financial performance targets.

The Finance Director must lead the implementation and maintenance of a framework of financial controls and procedures for managing risk, and will support the Audit Committee in meeting its assurance responsibilities. Finance Directors must determine accounting processes and oversee financial management procedures that enable the organisation to budget and manage within its overall resources. These include the following areas:

Internal control

- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity
- Maintaining the accuracy, security and integrity of financial data
- Establishing proportionate business continuity arrangements for financial processes and information
- Ensuring that any partnership arrangements are underpinned by clear and well documented internal financial controls

PRINCIPLE 3:

The Finance Director must lead the promotion and delivery of good financial management throughout the organisation, so that public money is safeguarded at all times, and used appropriately, economically, efficiently and effectively.

Financial control

- Production of soundly based annual and medium term budgets for revenue and capital
- Overseeing budget execution, monitoring, forecasting and reporting on income, expenditure, salient balance sheet matters and performance against financial targets, to ensure 'no surprises' and enable responsive action to be planned
- Analysing costs for the purpose of control, activity planning and policy development
- Accounting for income, expenditure, assets and liabilities, meeting professional and regulatory standards
- Ensuring that there is an effective system of internal financial reconciliation
- Establishing and monitoring a framework for projecting and controlling future commitments and ensuring prudent borrowing
- Securing effective arrangements for banking, borrowing, treasury management, pensions and trust funds
- Ensuring that financial systems meet users' needs, and that data is secure and properly protected
- Securing accurate, timely and efficient systems for specialist financial services (e.g. creditor payments, income collection, payroll and cash management) to ensure that financial transactions are accurately recorded
- Implementing appropriate measures to prevent and detect fraud and corruption
- Ensuring that there are proper arrangements for partnership working

Assurance

An annual governance statement should record the organisation's policies and practices and report on compliance in the above areas. With regard to stewardship, the Finance Director has a specific role in ensuring that the governance structures codify financial control, internal control, risk management and assurance, and a defined framework of financial accountabilities and reporting. This will encompass:

- Ensuring an effective internal audit function and assisting management in providing effective arrangements for financial scrutiny
- Providing information and advice to the Audit Committee
- Working well with external audit and regulators.

The role of the Finance Director 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 should be of good quality, supported by analysis and documentation and receive an unqualified audit opinion. This will be facilitated if the Finance Director maintains a constructive professional relationship with external auditors and inspectors.

Value for Money

The Finance Director has a key role to play in balancing control and compliance with value creation and performance.⁴ Better value for money releases resources that can be recycled into higher priorities, without expanding taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the Finance Director's role in the public service.

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 Finance Director is likely to take the lead in coordinating and facilitating efficiency plans. This is about creating a culture where the

⁴ IFAC - PAIB - 'The Roles and Domain of the Professional Accountant in Business' 2005.

PRINCIPLE 3:

The Finance Director must lead the promotion and delivery of good financial management throughout the organisation, so that public money is safeguarded at all times, and used appropriately, economically, efficiently and effectively.

organisation is keen to learn from the leaders in innovation and good practice in its service areas and, in practice, will involve a variety of approaches and techniques.

- Inspiring a culture where reducing waste and improving value for money is the business of all managers and finance staff
- Coordinating the organisation's scrutiny of its resource use and efficiency planning
- Enabling the organisation 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 other resources productively
- 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
- Ensuring that rigorous financial appraisal and oversight of change programmes, income generation proposals and investment projects
- Ensuring that financial management disciplines balance control and flexibility, enabling the organisation to test whether its strategic goals are suitably ambitious and its delivery plans realistic.

Key activities

- Secure efficient and effective financial administration, including record keeping and accounting and the protection and security of financial data
- Implement effective systems of internal control
- Ensure that proper arrangements are in place to identify and manage key business risks
- Ensure that appropriate measures are in place to prevent and detect fraud and corruption
- Implement efficient and effective systems of financial control
- Procure accurate, timely and efficient specialist financial services
- Ensure an effective internal audit
- Lead and support performance in achieving value for money.
- Ensure that financial accounts are prepared, published and audited in accordance with relevant standards and to required timetables, and that annual reporting meets the needs of users.

PRINCIPLE 3:

The Finance Director must lead the promotion and delivery of good financial management throughout the organisation, so that public money is safeguarded at all times, and used appropriately, economically, efficiently and effectively.

Compliance framework

Organisational requirements	Individual responsibilities
<ul style="list-style-type: none"> • Allocate responsibility to the Finance Director 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 • Maintain systems and procedures for financial administration, internal control, financial control and protection of the organisation’s resources and assets • Prepare an annual governance report to account for the organisation’s policies and practices, and arrangements for financial and internal control and for controls to manage risk • Ensure that effective arrangements are in place for preventing and detecting fraud and corruption • Maintain and resource effective internal audit • Develop an effective independent Audit Committee • Ensure that the organisation makes best use of resources and that taxpayers and service users receive value for money • Publish accounts that report fairly the financial position, meeting relevant standards and timetables, with annual reports that meet the needs of their users. 	<ul style="list-style-type: none"> • Place stewardship and probity as the bedrock for finances • Championing supporting performance in achieving value for money • Be open to innovation and new solutions, tempered by risk awareness • Prepare financial accounts that receive an unqualified audit opinion

PRINCIPLE 4:

The Finance Director in a public service organisation must be professionally qualified and suitably experienced.

Commentary

Demonstrating professional and interpersonal skills

In order to exercise financial leadership throughout the organisation, the Finance Director must be able to demonstrate their own professional standing. As a member of a professional body, the Finance Director's skills, knowledge and expertise will have been tested by examination and must be continuously developed in a structured and monitored context. The Finance Director must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and promote these throughout the finance function⁵.

Advice to the whole organisation, executive or non-executive, must be reliable, timely, clear and informed, in order to be influential. It must also be intelligible, and the Finance Director will need to communicate complex financial information in a clear and credible way. He or she should be able to operate effectively in different modes including directing, influencing, evaluating and informing. The Finance Director must have the confidence to give impartial and objective advice even if it may be unwelcome, and must be sufficiently forceful to intervene with authority if financial principles need to be asserted or defended.

Applying professional and business experience

To support decision makers effectively, the Finance Director must have a good understanding of public sector finance and its regulatory environment and comply with standards formulated through rigorous due process in support of the public interest. The Finance Director must also have a good understanding of the principles of financial management, and set a tone for the organisation that finance matters, and is to be taken seriously. In order to evaluate proposals and to offer well founded and expert advice he or she must understand how and when to apply the tools and techniques of financial analysis in support of business decisions. Such techniques include strategic analysis, review of sector best practice, benchmarking, option appraisal, performance measurement, statistics and risk assessment. However data is not always clear cut and the Finance Director must also be able to apply judgement to imperfect information.

To carry weight within the organisation the Finance Director 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.

Finance Directors often hold a range of different responsibilities, beyond finance, managing other services or leading change programmes: these must be acknowledged and resourced so that core financial responsibilities are not compromised.

⁵ IFAC: Code of Ethics, 2005

PRINCIPLE 4:

The Finance Director in a public service organisation must be professionally qualified and suitably experienced.

Compliance framework

Organisational requirements	Individual responsibilities
<ul style="list-style-type: none"> • Appoint a professionally qualified Finance Director whose responsibilities include advising the executive and non executive leaders of the organisation on the financial management of the organisation. • Review the scope of the Finance Director’s other management responsibilities to ensure financial matters are not compromised. • Ensure that the Finance Director has the skills, knowledge, experience and resources they need to perform well in the role. • Provide appropriate ongoing support to ensure that the Finance Director can meet relevant professional and legal requirements and perform effectively in both the financial and non-financial areas of their role. 	<ul style="list-style-type: none"> • Be a member of a CCAB body or equivalent recognised accountancy body, qualified through examination, and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers • Have relevant prior experience of financial management in the public sector, private sector or voluntary sector • Understand the principles of corporate finance, economics, and accounting • Understand public service finance and its regulatory environment • Adhere to international standards set by the International Federation of Accountants (IFAC) on: <ul style="list-style-type: none"> – Ethics – Continuing Professional Development • Undertake mandatory continuing professional development, keeping abreast of developments in best practice through networking and other mechanisms, and developing leadership skills • Undertake appropriate training or obtain relevant experience in order to meet the requirements of the non-financial areas of the role.

PRINCIPLE 5:

The Finance Director in a public service organisation must lead and direct a finance function that is resourced to be fit for purpose and appropriately developed.

Commentary

Providing financial leadership

The Finance Director must promote financial literacy throughout the organisation, training and developing relevant skills at all levels. Financial responsibilities are often very widely diffused throughout an organisation and spending decisions are in the hands of managers, who need to understand and be influenced by the financial consequences of their decisions. The Finance Director must also act as Head of Profession for accountants and finance specialists organisation-wide, with a documented line of accountability, even where this is not through direct line management, in order to ensure compliance with regulatory and professional standards and to exercise leadership on financial matters in a devolved environment.

'Fit for purpose' finance function

The finance function needs to have a firm grasp of the organisation's financial position and performance. It should support the organisation's broader future-oriented and developmental agenda, by appraising investment options and change programmes and contributing creative financial solutions within an effective risk management framework.

The Finance Director must ensure that there is sufficient depth of financial expertise, supported by effective systems, to discharge that accountability and to challenge those responsible for the organisation's activities to account for their financial performance⁶. Resources should be proportionate to the complexity of the financial environment, which may include a variety of direct and indirect funding streams and delivery modes, including devolved budget responsibility, outsourcing, partnership working and pooled funding.

Appropriately developed finance skills

The Finance Director must identify the competencies needed by the business, including specialist skills, and ensure the finance function can access the skills and experience to exercise stewardship of public finances and to scrutinise, challenge and develop financial performance and contribute effectively to new directions and innovation. The Finance Director also has a responsibility for learning and development amongst finance staff to ensure that both current and likely future skill needs are addressed.

Key activities

- Leading and directing the finance function so that it makes a full contribution to the business
- Leading or promoting financial management change programmes
- Line managing other defined areas
- Ensuring that the services provided by the finance function are in line with the expectations and needs of its internal stakeholders
- Acting as head of profession to all finance staff in the organisation
- Identifying and equipping finance staff, managers and decision makers with the financial competencies and expertise needed to manage the business both currently and in the future.

⁶ HM Treasury - Managing Public Money 2007

PRINCIPLE 5:

The Finance Director in a public service organisation must lead and direct a finance function that is resourced to be fit for purpose and appropriately developed.

Compliance framework

Organisational requirements	Individual responsibilities
<ul style="list-style-type: none">• Ensure that people with managerial responsibilities develop the financial capabilities to be effective in their roles• Provide the finance function with sufficient resources, expertise and systems to discharge its responsibilities• Ensure the Finance Director is recognised as Head of Profession for finance staff throughout the organisation.• Review the performance of the finance function• Ensure financial competencies are embedded in person specifications and appraisals	<ul style="list-style-type: none">• Ensure that the finance function has resources, expertise and systems that are sufficient to meet business needs• Ensure, where necessary that outside expertise is called upon for specialist advice not available within the finance function.• Seek continuous improvement in the finance function and other defined areas• Develop a culture for finance staff to engage actively with the business and promote creative solutions• Develop a customer focus for finance, both internally and for external stakeholders.

CONSULTATION QUESTIONS

This version of the CIPFA Statement on the Role of the Finance Director in Public Service Organisations has been issued as a draft for consultation. CIPFA is seeking your views on the statement before finalising it. We would be interested in your comments on any aspects of the statement. In particular we would be interested in your views on the questions below. Please be specific in your answers and make detailed suggestions.

1. Are the approach and style of the Statement right? If not, what changes would you suggest?
2. Do the five principles cover the right ground? If not, how might they be amended or augmented?
3. Are there any aspects of the Statement that would reduce its relevance, or prevent it being applied in any areas of the public services? Please explain any potential issues and suggest appropriate alternatives.
4. Do you support CIPFA's view that organisations should confirm compliance with the Statement in their annual governance statements?
5. Would requiring organisational arrangements where the Finance Director is not a member of the senior team that exercises management leadership, with a status equivalent to other members, to be explained publicly, together with how this delivers the same impact, deter non-compliance? If not how could this be done?
6. Who should sign the compliance statement on behalf of the organisation?

Responses to the consultation questions and/or comments on any aspect of the report should be submitted, preferably by e-mail, so that they will be **received by 27 February 2009**. All comments will be considered a matter of public record.

Comments should be sent to:

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