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GETTING THE FINANCES RIGHT
A BRIEFING FOR NON-EXECUTIVE
BOARD MEMBERS OF PUBLIC
SERVICE ORGANISATIONS

AT THE HEART OF
PUBLIC SERVICES 

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Getting the Finances Right

A Briefing for Non-executive Board Members of Public Service Organisations

Boards play a vital role. They are charged with setting the strategic direction for their organisations, safeguarding their public funding and ensuring services are delivered to the general public. Their leadership drives forward improvements in services.

Success can only come where, as part of good corporate governance, there is a combined strength in leadership, financial management and performance management. The boundaries between these three components are inevitably blurred. All three contribute to the success of an organisation, its goals and development priorities.

The focus of this briefing is financial management. It looks at the strategic aspects of financial management and the questions that non-executive board members might ask about their organisation's financial arrangements. A key role of a non-executive member of the Board is to exercise independent and constructive challenge of senior management's assumptions.

Collectively, the Board has to get the finances right. The success of its business and delivery goals depends on this. Where finances are in crisis, then services are delivered in an atmosphere of retrenchment and fire-fighting, which is likely to undermine day-to-day quality and performance.

WHAT IS FINANCIAL MANAGEMENT?

CIPFA has developed a definition of financial management 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". This definition stems directly from the corporate governance debate and combines probity and accountability concerns with achieving business aims. Its key message is that good financial management is a prerequisite for successful performance.

Throughout the public services, there are a variety and range of bodies and services delivered. The detailed aims and objectives will be specific and individual. All public bodies are striving to improve services and to ensure they meet customer needs and expectations. Governance arrangements too will vary, as will the composition of Boards. But what they all have in common is that they spend public money, and making finances work well is a challenge that all organisations must address.

ACHIEVING GOOD FINANCIAL MANAGEMENT

Financial management in the public service is about much more than accounting for expenditure and demonstrating probity. Financial information to support good decision-making, planning and intelligent measures of performance are part of the modern-day equation. As public service bodies implement significant and challenging change programmes, finance skills must help drive innovation. Finance skills need to be spread throughout the organisations for everyone to play the appropriate role in managing finances well.

Boards will properly rely on the advice of their professional finance staff, but Boards are ultimately responsible for the direction and

control of an organisation. How can Boards get to grips with financial management and make sure that arrangements and systems are fit for purpose? Boards should be asking whether financial management is acting as a driver for improvement, and not a restraint.

The CIPFA FM model¹ sets out good financial management practice. It uses a spectrum of three progressive styles of financial management to profile the arrangements in place. These three styles focus on:

- **Securing stewardship** – an emphasis on control, probity, meeting regulatory requirements and accountability.
- **Supporting performance** – responsive to customers, efficient and effective, and with a commitment to improving performance.
- **Enabling transformation** – strategic and customer led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.

If Boards have set out an ambitious change programme, are they sure that financial management will support it? If, traditionally, financial management has had a strong focus on accounting for money spent, will it be able to provide the right decision support for change programmes? What style of financial management is needed so that it aligns with the development priorities set by the Board?

1. *The CIPFA FM Model: Improving Financial Management and Effectiveness in the Public Service.*

Public sector bodies now recognise the importance of ensuring that financial planning is aligned with service planning; that key business risks are identified; and that effective governance arrangements and practices are in place with partners. If these are not got right, potentially adverse financial outcomes may arise. Across the public sector, financial management needs to be viewed holistically, from Board members right through to front-line staff, all supported by capable finance professionals. Everyone has a part to play. Boards have a particular responsibility for oversight of the whole system, to see the full picture and to ensure that for the organisation as a whole, proper financial management arrangements are in place and working effectively. In order to exercise oversight they need to ask the right questions.

The next three sections in this briefing work through each of the three progressive styles of financial management and identify key questions for non-executive Board members. These questions look at policies and outcomes for financial management and the Board's leadership role on financial matters.

References are to statement numbers used in the *CIPFA FM Model: Improving Financial Management and Effectiveness in the Public Service*. The CIPFA FM Model is a web-based self-assessment tool that allows organisations to assess their own financial management arrangements against best practices and to identify areas for improvement. The CIPFA FM Model is wholly endorsed by the Audit Commission. Launched

in 2004 to wide acclaim, it is now being used by over 250 public service organisations in the UK and has generated much interest worldwide, and especially from Australia and Canada. For more information about the CIPFA FM Model, visit its website: www.cipfa-fm-model.org.uk

Where any of the following questions raise issues that you wish to explore, then a first step will be discussions within the Board and with the executive directors. The financial management responsibilities of non-executive Board members of challenge, scrutiny and leadership will be exercised in a variety of forums such as finance committees and audit committees, as well as within the Board itself. Many sources of useful guidance on leadership, performance and financial management can be found on the Improvement Network:
www.improvementnetwork.gov.uk

SECURING STEWARDSHIP

A clear framework of financial accountability **L1**

- Have you read a clear written statement of the Board's financial management role and its responsibilities?
- Do you understand the part you play as an individual?
- Is there a strong and well-understood relationship between the non-executive and executive members of the Board, so that both groups are clear about their respective responsibilities?
- Is there a statement of the financial strategy?
- Is it clear how the standing orders and standing financial regulations reflect the Board's role and responsibilities?
- Does a standards committee (or equivalent) maintain standards of financial propriety and investigate alleged abuses?
- Are you clear about the role of the audit committee (or equivalent) and how its functions are discharged?
- Is the external auditor's annual letter and its recommendations considered by the Board and audit committee?²
- Does the Board actively champion arrangements for whistle-blowing and fraud prevention?²

- Are you satisfied that the published annual report conforms to appropriate standards?²
- Do you understand the assurance process for the Statement on Internal Control and the risks identified within it?²

Resource allocation is planned and spending monitored **L2**

- Are there clear opportunities to challenge and review resource allocations?
- Do Board management reports allow you to review the budget regularly to ensure that spending is on track and being spent as planned?
- Are you clear when approval is needed from the Board if major programmes are to be varied by more than preset levels?
- Do Board management reports include financial reports on balance sheet items?

Financial competencies are identified **P1**

- Is induction training for your role and responsibilities in financial matters provided and adequate?
- Are you briefed on significant changes?

2. The audit committee may first consider these matters where the Board has delegated lead responsibility.

Internal controls are in place and exceptions reported

PR1/PR3

- Do you understand and comply with the organisation's code of conduct for the prevention and detection of fraud and corruption?
- Does the chief internal auditor have the right to report to the Board (or nominated committee)?
- Does internal audit submit a formal report to the Board (or nominated committee)?

Key business risks are identified and managed

PR2

- Are you made aware of the key business risks and planned responses to them?
- Are these owned within the organisation?
- Do the owners oversee and monitor these risks?

Budgets are soundly based

PR5

- Does the budget report to the Board identify the major risks and financial consequences?
- Are you aware of how to challenge and review budget proposals?

Proper partnership working arrangements are in place

PR8

- Are the accountabilities for funding and any liabilities clear for the different partnerships?

Confidence in the integrity of financial conduct

S1

- Does the Board receive reports when things go wrong?
- Do you set an example by your own personal conduct?
- Are you aware of when to declare an interest at meetings?

Assurance on stewardship of public monies

R1

- Does the Board receive positive assurance that internal financial controls safeguard public monies?
- Does the Board receive confirmation that statutory financial targets have been met?
- Does the Board receive confirmation that financial reporting deadlines have been met?

SUPPORTING PERFORMANCE

Sustainable financial management policies underpin developments L3

- Does the Board discuss the development of sustainable finances?
- Are policies and business aims consistent with this?

The corporate business plan integrates financial and service planning and influences resource allocation L4

- Does the Board base its resource allocation and decisions on re-allocation on an integrated corporate business plan (CBP)?
- Is the CBP the public statement of the Board's priorities and performance goals?
- Are finances in place to meet these?
- Is the Board aware of the views of external audit and inspection about planning and review processes?

Strategic decisions by the Board are made with full knowledge of financial issues L5

- Do the strategic decision reports to the Board make clear the financial impact and risks, and include alternatives?

The medium-term financial plan sustains business and financial performance PR12

- Can you challenge the assumptions and forecasts that underpin the plan?
- Are you clear about the national and local priorities that the plan takes account of?
- Is the Board confident that the plan is realistic?

Value for money is measured PR13

- Does the Board receive periodic reports that integrate performance with resources expended, showing variances over preset tolerances for action and decision?
- Does the Board receive information that benchmarks the organisation's performance against others'?
- Is this used as a catalyst for improvement?

The Board is clear about the procurement strategy to secure VFM PR14

- Does the Board consider the procurement strategy, giving a clear direction on technology and innovation to secure VFM?
- Are the risks for partnership arrangements made clear to the Board?

The public is confident that VFM is delivered S3

- Does the Board ensure that the organisation communicates with the public and customers about VFM?
- Do you receive feedback?

- Are external audit and inspection agencies positive about the organisation's VFM arrangements?

Performance trends are clear

R2

- Do you have a clear picture of performance trends, productivity, unit costs and benchmarks, and assurance that VFM is being achieved?
- Are actions in response to review findings on VFM and by external audit and inspection monitored by the Board?

ENABLING TRANSFORMATION

There is a focus on future financial scenarios L6

- Is the Board aware of future financial scenarios?
- Is the Board clear about risks and reward sharing in partnerships?
- Are change programmes focused on the customer?
- Are you made aware of the financial impact and risks of change programmes?

The future financial strategy reflects business needs, present and future L7

- Does the Board aim to promote a culture of innovation and improvement?
- Are you aware of the cultural supports to promote incentives for corporate behaviour against protecting narrow interests?
- Does the Board maintain oversight but support empowerment in financial matters?

There is ambition in the strategic goals and realism in delivery goals L8

- Do you know how the Board promotes joint ownership of improvement agendas and honesty in delivery plans?
- Can the Board point to concrete business and financial benefits from its change programme?

Financial literacy is diffused through the organisation P6

- Is an ethos of careful use of resources promoted by the Board and part of the organisation's culture?

People and competencies meet the needs of the transformational agenda P7

- Are you confident of your own competencies in financial matters?
- Are you able to access any necessary training and briefings?
- Is the Board satisfied that the financial competencies support the organisation's needs?
- Is the Board satisfied that financial training is sufficient to develop the competencies needed?

Financial systems support decision analysis for change programmes PR15

- Are reports and their financial analyses comprehensive and flexible so that decisions can be reached with confidence?

Customers and service users can influence key financial policies S7

- Does the Board listen to views on spending priorities and charging/tax levels in making decisions?

Financial management supports the drive for improvement and change **R3**

- Can your organisation point to well regarded financial management arrangements?
- Has your organisation achieved the benefits from its change programmes?

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