

# Birmingham City Council

## A review of the approach to self-assessment of compliance with the CIPFA FM Code

A Report by:  
The Chartered Institute of Public Finance and Accountancy

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## 1. Introduction

- 1.1 Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable. The CIPFA Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 1.2 The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.
- 1.3 Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

## 2. Structure of the FM Code

- 2.1 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt.
- 2.2 The underlying principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.
  - Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
  - Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
  - Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
  - Adherence to professional standards is promoted by the leadership team and is evidenced.
  - Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
  - The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.
- 2.3 Under each of these six principles are a series of standards against which an authority should test itself to gauge the degree of compliance and identify actions that should be

put in place ensure development of compliance where required. Annex 1 contains the principles and standard that relate to each.

### 3. Assessment of compliance

- 3.1 The FM Code and its accompanying guidance goes into detail outlining practices that local authorities can adopt to ensure compliance with the FM Code and each of the standards. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code.
- 3.2 CIPFA would recommend that an organisation reviews each of the standards, the accompanying guidance and then makes an assessment of the degree of compliance.
- 3.3 It is important to note that compliance with the code is a collective responsibility and as such so should the assessment. The assessment should be as inclusive as possible taking views and supporting evidence from a wide range of individuals across the organisation.
- 3.4 The assessment of compliance should be undertaken on an annual cycle and the findings reported to an appropriate committee, such as audit or audit and governance and included within the annual governance statement.
- 3.5 The nature of reporting compliance is not prescribed but we would advise organisations conclude the assessment with a rating (such as a RAG) against each statement and a commentary that explains the current position and an action list of activities designed to improve compliance or rectify any weaknesses.
- 3.6 The action list can therefore be used as part of a wider change or improvement programme to help ensure integration of the principles and desired outcomes.
- 3.7 As part of the assessment process Birmingham have asked CIPFA to review the approach adopted and the conclusions drawn. Having an independent assessment of the process is a positive indication of the priority the FM Code has within the Authority.

### 4. Approach adopted

- 4.1 As indicated above the FM Code has a series of principles and standards. The Authority has reviewed each of the standards in depth, which would be our suggested route to assessing compliance. It ensures completeness and removes bias.
- 4.2 As part of the process the Authority has tested each of the standards against a set of key questions or lines of enquiry. These challenge the state of compliance and those questions CIPFA has advocated are used to test findings. Each is then allocated a RAG rating to reflect the findings. The FM Code compliance report produced indicates a challenge and provides a commentary of the current degree of compliance. It is a thorough report and sets the direction for future reviews.
- 4.3 In addition to the commentary and the RAG rating, the self-assessment has also provided an indication of areas for improvement. A positive step has been the inclusion of opportunities to improve irrespective of the rating which indicates a maturity of thinking.
- 4.4 It is important to note that the review has not been undertaken in isolation. It is clear that where improvements have been made or are in train, as in the case of amber ratings,

these areas have been included in the Finance Improvement programme which can be evidenced from the Operating Model work plan and activities underway.

- 4.5 Aligned to the self-assessment against the FM Code is the work the Authority has undertaken using the CIPFA Financial Management Model. The review undertaken in 2019 indicated a 1\* Rating and then the subsequent review in 2021 indicated a positive progression to 3\*. The foundations of both the Code and Model are the same, that is best practice in financial management and financial governance. The activity undertaken and also that planned to respond to the Model has supported the assessment of the code and importantly ensured a collective direction and goals.
- 4.6 In conclusion the approach adopted is thorough, aligns with the suggested route and draws conclusions which can be evidenced based. In our view this is a balanced assessment. There are identified actions which will be brought into the improvement programme and as such will be monitored and managed to ensure delivery.

## 5. Reporting

- 5.1 The Audit Committee report, originally dated 19<sup>th</sup> of July (meeting of the committee was postponed until 28<sup>th</sup> September 2022), provides a focussed update and commentary of the self-assessment review. The same report is being presented to this committee. As we would expect it concentrates on the areas of improvement, for relevant standards but in addition adds areas that are also seen as key for improvement.
- 5.2 We would suggest that periodic updates are provided to the Audit Committee on progress against these areas to provide assurance of action and allow debate on continued compliance with the FM Code.

## 6. Internal Audit review

- 6.1 The review undertaken by Internal Audit on the 2020/21 FM Code self-assessment is also a positive step to understanding areas of strength and areas for improvement. As indicated in the report to the Audit Committee the Internal Audit review highlighted three areas for improvement. These were around the detailed evidence; actions plans and the monitoring of these.
- 6.2 As indicated in the Audit Committee report and the self-assessment commentary, along with the identification of actions Internal Audit findings have been taken on board.

## 7. Conclusions

- 7.1 Our review of the self-assessment indicates a robust and through process has been followed.
- 7.2 The findings of the self-assessment are balanced and indicate areas for improvement irrespective of the RAG rating provided indicating an aim of continuous improvement.
- 7.3 Areas that require attention are clearly indicated along with ownership for delivery.
- 7.4 The findings and actions from the FM Code self-assessment are integrated with the Finance Improvement Programme which will support future assessments against the CIPFA FM Model.

## Annex 1 – FM Code Principles and Standards

