



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority  
Finance and Resources Committee

# **CIPFA FINANCIAL MANAGEMENT CODE UPDATE**

Report of the Chief Fire Officer

**Date:** 22 April 2022

**Purpose of Report:**

To update Members on progress against implementation of CIPFA's Financial Management Code.

**Recommendations:**

That Members note the contents of this report.

## **CONTACT OFFICER**

**Name:** Becky Smeathers  
Head of Finance and Treasurer to the Fire Authority

**Tel:** (0115) 967 0880

**Email:** [becky.smeathers@notts-fire.gov.uk](mailto:becky.smeathers@notts-fire.gov.uk)

**Media Enquiries Contact:** Simon Cotton  
(0115) 967 0880 [simon.cotton@notts-fire.gov.uk](mailto:simon.cotton@notts-fire.gov.uk)

## 1. BACKGROUND

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published The Financial Management Code (FM Code) in October 2019. The first full year of compliance was 2021/22.
- 1.2 The FM Code provides guidance for good and sustainable financial management in local authorities, giving assurance that authorities are managing resources effectively.
- 1.3 The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable.
- 1.4 The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management.
- 1.5 Complying with the standards set out in the FM Code is the collective responsibility of elected Members, the Chief Finance Officer, and their professional colleagues in the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.
- 1.6 The FM Code builds on elements of other CIPFA codes, such as The Prudential Code for Capital Finance, the Treasury Management in the Public Sector Code of Practice and the Code of Practice on Local Authority Accounting in the United Kingdom.
- 1.7 By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements.

## 2. REPORT

### FINANCIAL MANAGEMENT CODE

- 2.1 The FM Code establishes an approach based on six principles of good financial management:

- 1. Organisational Leadership**

- Demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

- 2. Accountability**

- Based on medium term financial planning, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.

### 3. Transparency

At the core of financial management, using consistent, meaningful and understandable data, reported frequently, with evidence of periodic officer action and elected member decision making.

### 4. Professional Standards

Promoted by the leadership team, with adherence evidenced.

### 5. Assurance

Recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of both external audit, internal audit and inspection.

### 6. Long-Term Sustainability

At the heart of all local services' financial management processes, evidenced by the prudent use of public resources.

- 2.2 Explicit standards of financial management are also set out by the FM Code. These are the minimum standards which must be complied with in order for the Service to demonstrate its compliance with the FM Code. The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics. Whilst compliance with the standards is mandatory, the FM Code does not prescribe how they should be achieved. The standards are summarised in Appendix A.
- 2.3 The Service internally reviewed its processes, procedures and governance arrangements and reported its findings to Finance and Resources Committee in July 21. Each FM Code Standard was graded:

| Grade | Level of Compliance        |
|-------|----------------------------|
| Green | Compliant                  |
| Amber | Can be improved            |
| Red   | Significant Non-Compliance |

- 2.4 The original review rated 6 areas to be amber and the remaining 11 areas green. There were no areas of significant non-compliance. This position has now improved with just one area remaining amber.
- 2.5 Section 2C required that governance information was available on the Authority's website. The new website is set to go live by the end of April and will contain existing governance documentation. There is a larger review of Authority Governance underway and some of this information will not be available on the website until this review is complete.

- 2.6 Two areas were originally rated amber as the Service did not have an Asset Management Plan (3-I and 6-O). On further review, it was considered that the Estates Strategy fulfilled the purpose of the Asset Management Plan and a separate document was not considered necessary.
- 2.7 In addition to the internal review, Internal Audit were requested to undertake an audit of progress against the FM Code. This audit has now been completed and the full report can be found at Appendix B. The audit opinion provided a Reasonable Assurance level – i.e. that risk levels were acceptable. The report acknowledged that effective controls were in place regarding self-assessment, leadership, accountability, long term sustainability and value for money.
- 2.8 The report also identified 4 priority 2 areas where improvements are required:
- Leadership - Several policies and procedures in relation to governance arrangements have not been updated in accordance with the revision schedule and have been found to be out of date (also see section 2.5).
  - Accountability - The processes to identify when a budget holder has over-committed capital expenditure are not robustly applied and have allowed a budget to become significantly overspent.
  - Professional Standards - Financial Regulations, Financial Procedures and Statement of Financial Principles are out of date.
  - Sources of Assurance - Several internal audits have been delayed or could not be completed as a result of incomplete information being provided.
- 2.9 An action plan for improvement in these areas is included in the report. Progress against these actions will be monitored and reported to the Strategic Leadership Team. They will also be subject to further review by Internal Audit to ensure that the recommendations have been actioned.

### **3. FINANCIAL IMPLICATIONS**

This report relates to financial governance and should have no direct financial impact.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

The requirements of the FM Code will be built into the Service's code of Conduct. Any development requirements will be identified, and appropriate training provided.

## **5. EQUALITIES IMPLICATIONS**

An equality impact assessment has not been undertaken because this is a report relating to the Authority's governance rather than new or amended policy.

## **6. CRIME AND DISORDER IMPLICATIONS**

There are no crime and disorder implications arising from this report.

## **7. LEGAL IMPLICATIONS**

Whilst compliance with the code is not a statutory duty, failure to comply could be viewed as not meeting existing statutory duties.

## **8. RISK MANAGEMENT IMPLICATIONS**

The purpose of the FM Code is to help mitigate future financial risk and ensure that the Service remains a going concern.

## **9. COLLABORATION IMPLICATIONS**

There are no collaboration implications arising from this report.

## **10. RECOMMENDATIONS**

That Members note the contents of this report.

## **11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None.

Craig Parkin  
**CHIEF FIRE OFFICER**

## FINANCIAL MANAGEMENT CODE STANDARDS

| Section  | Standards  | Internal Rating July 21 (Green / Amber / Red) | Action Required  | Revised Rating March 22 | Comments   |
|----------|--|---|--|-------------------------|--|
| <b>1</b> | <b>The Responsibilities of the Chief Finance Officer and Leadership Team</b>                                       |   |  |                         |  |
| A        | The leadership team is able to demonstrate that the services provided by the authority provides value for money.   | Amber   | Annual Value for Money report to be built into Medium Term Financial Strategy (March 22)   | Green                   | Using our resources effectively is included in Annual Statement of Assurance rather than MTFS. Assessed as adequate in Internal Audit Report.  |
| B        | The Authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.      | Green   |  | Green                   |  |
| <b>2</b> | <b>Governance and Financial Management Style</b>   |   |  |                         |  |
| C        | The Leadership team demonstrates in its actions and behaviours responsibility for governance and internal control. | Amber   | Governance Documentation to be built into new website. Make policies available at single point on Sharepoint. (March 22)<br><br>Revised Code of Conduct to be approved by Policy and Strategy Committee. (March 22)<br><br>Automated reminder to staff to ensure compliance with Register of Interests. (March 22) | Amber                   | New website due to go live April 22. Available governance documentation will be available. Governance review currently underway and website will also include this when completed.<br><br>Reviewed as part of Code of Ethics approval – Fire Authority 3 September 2021. Policy 2213<br><br>Undertaken April 22. |

| Section  | Standards   | Internal Rating July 21 (Green / Amber / Red) | Action Required  | Revised Rating March 22 | Comments  |
|----------|---|---|--|-------------------------|---|
| D        | The Authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).                          | Green   |  | Green                   |   |
| E        | The Financial Management Style of the authority supports financial sustainability.  | Green   |  | Green                   |   |
| <b>3</b> | <b>Long to Medium Term Financial Management.</b>  |   |  |                         |   |
| F        | The Authority has carried out a credible and transparent Financial Resilience Assessment.   | Green   |  | Green                   |   |
| G        | The Authority understands its prospects for financial sustainability in the longer term and has reported this clearly to Members. | Amber   | Strengthen link between Medium Term Financial Strategy (MTFS) and Strategic Plan (CRMP). (December 21)<br><br>Consider additional scenario Planning in MTFS. (December 21) | Green                   | MTFS approved alongside CRMP and funding provided for key projects in CRMP.<br><br>Scenario planning included in MTFS   |
| H        | The Authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.                                   | Green   |  | Green                   |   |
| I        | The Authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans.                      | Amber   | Develop Corporate Asset Management Plan (December 21)  | Green                   | Estates Strategy fulfils all requirements of the Asset Management Plan so on review, this was not considered necessary. |

| Section  | Standards  | Internal Rating July 21 (Green / Amber / Red) | Action Required  | Revised Rating March 22 | Comments   |
|----------|--|---|--|-------------------------|--|
| <b>4</b> | <b>The Annual Budget</b>   |   |  |                         |  |
| J        | The Authority complies with its statutory obligations in respect of the budget setting process.  | Green   |  | Green                   |  |
| K        | The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves. | Green   |  | Green                   |  |
| <b>5</b> | <b>Stakeholder Engagement and Business Plans</b>   |   |  |                         |  |
| L        | The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.            | Amber   | Include budget information in Strategic Plan consultation (February 22). | Green                   | CRMP consultation included questions on Strategic Goal 6 – We will manage and invest in our service to ensure we are fit for the future. Included approach to financial sustainability and capital investment. |
| M        | The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.   | Green   |  | Green                   |  |

| Section  | Standards  | Internal Rating July 21 (Green / Amber / Red) | Action Required                                       | Revised Rating March 22 | Comments  |
|----------|--|---|---|-------------------------|---|
| <b>6</b> | <b>Monitoring Financial Performance</b>  |   |   |                         |   |
| N        | The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.   | Green   |   | Green                   |   |
| O        | The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.  | Amber   | Develop Corporate Asset Management Plan (December 21) | Green                   | Estates Strategy fulfils all requirements of the Asset Management Plan so on review, this was not considered necessary. |
| <b>7</b> | <b>External Financial Reporting</b>  |   |   |                         |   |
| P        | The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom. | Green   |   | Green                   |   |
| Q        | The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.  | Green   |   | Green                   |   |

**Total Amber: 1**  
**Total Green: 16**

**OFFICIAL SENSITIVE**

**To: The Chief Fire Officer, Nottinghamshire Fire and Rescue Service**

**Subject: NFRS – CIPFA Financial Management Code**

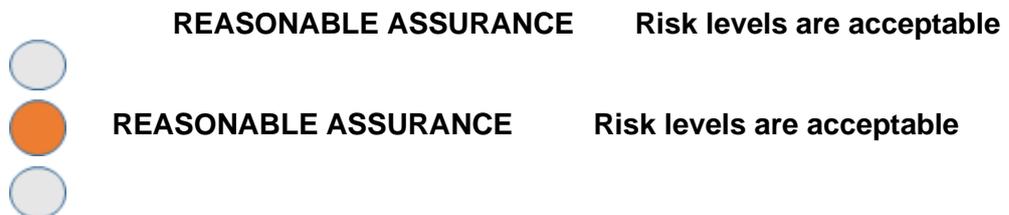
**Date: March 2022**

## **1 Introduction**

- 1.1 The purpose of the review is to examine the evidence to confirm that the Fire Service complies with CIPFA's Financial Management Code (FM Code).
- 1.2 CIPFA has developed the FM Code, which sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, have in place by the end of FY 2021/22.

## **2 Audit opinion**

- 2.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 2.2 In our opinion the level of assurance we can provide is: -



## **3 Risk areas examined**

- 3.1 During this audit we looked for controls to address the following key risks arising from each of CIPFA's six principles: -

| <i>Risk title</i> | <i>Description</i>   |
|-------------------|--|
| Leadership        | There may be a lack of clear leadership or strategic direction.  |
| Accountability    | Governance and internal control arrangements may not be operating effectively and that those responsible for the effective operation of these arrangements may not be held accountable. Ineffective financial planning, risk management or data management may result. |
| Transparency      | Data may be reported inconsistently, incompletely or inaccurately.   |

|  |   |
|--|---|
| Professional Standards                             | Professional standards by leadership may not be adhered to.   |
| Sources of Assurance                               | There may be inadequate or unrecognised sources of assurance. |
| Long-term Sustainability and Value for Money (VFM) | Processes may not ensure the prudent use of resources.        |

3.2 The scale of the area reviewed is: -

| <i>Metric</i>                       | <i>2018-19</i> | <i>2019-20</i> | <i>2020-21</i> |
|-------------------------------------|----------------|----------------|----------------|
| <i>Net Revenue Expenditure (£m)</i> | <i>42.715</i>  | <i>42.080</i>  | <i>44.890</i>  |
| <i>Capital Expenditure (£m)</i>     | <i>1.075</i>   | <i>1.858</i>   | <i>3.249</i>   |

#### 4 Audit findings

4.1 Following our work, and with reference to the other sources of independent assurance that were available, we consider the controls to be effective in the following risk areas: -

- Self-Assessment - In accordance with the Code, the Fire Authority can evidence that they have reviewed their financial management arrangements against the Standards and that they have taken such action as may be necessary to comply with them. The Head of Finance has carried out a self-assessment and gap analysis and presented this to the Finance & Resources Committee in July 2021. Where gaps have been identified, actions have been put into place to address those.
- Leadership – A governance framework is in place, with established financial reporting arrangements.
- Accountability – Regular reports and oversight is conducted through the Fire Authority, SLT (weekly meetings), Operational Learning Board (bi-monthly), Programme and Performance Board (monthly), and the Service Delivery and Evaluation and Assurance Group (quarterly).
- Long-term sustainability and VFM – the Strategic Plan contains information on the budget and is a key document informing the Medium-Term Financial Strategy (MTFS). The MTFS includes the priorities outlined in the Strategic Integrated Risk Management Plan (IRMP) and links together with all other strategies of the organisation such as the Capital Strategy, Treasury Management Strategy and Reserves Strategy. VFM is driven in budget reviews and monitoring, project management, contract management and financial management. The Annual Statement of Assurance 2020/2021 concluded that arrangements for securing VFM were achieved.

4.2 There were some control weaknesses and some failures to comply with the standard controls, resulting in remaining risks. The attached Action Plan sets out these weaknesses, and our recommendations to address them.

4.3 A summary of the recommendations made, together with brief details of the related findings, is set out below: -

| <i>Priority level</i> | <i>Number of Recommendations</i> | <i>Recommended action timescales</i> |
|-----------------------|----------------------------------|--------------------------------------|
| Priority 1            | 0                                | Immediate                            |
| Priority 2            | 4                                | Within two months                    |

#### **Priority 2 areas**

- Leadership - Several policies and procedures in relation to governance arrangements have not been updated in accordance with the revision schedule and have been found to be out of date.
- Accountability - The processes to identify when a budget holder has over-committed capital expenditure are not robustly applied and have allowed a budget to become significantly overspent.
- Professional Standards - Financial Regulations, Financial Procedures and Statement of Financial Principles are out of date.
- Sources of Assurance - Several internal audits have been delayed or could not be completed as a result of incomplete information being provided.

#### **4.4 Advisory Areas**

In addition to the above, several actions were identified through the gap analysis.

Work remains in progress regarding the following:

- Codes of conduct – due to be approved by the end of the financial year and circulated to all staff. Once done, a Net Consent report will be sent to audit confirming this action.
- Need to undertake a savings review once funding levels can be predicted with greater certainty. This will happen as part of the 2022/23 MTFS.

It is advised that Management complete any outstanding actions required to comply with the FM Code.

**Audit conducted by: Angela Wendels  
Senior Auditor**

**Audit supervised by: Philip Dent  
Audit Supervisor**

**Rob Disney, Group Manager Assurance**

|  |  |                           |
|--|--|---------------------------|
| Internal Audit final report 2021-09 – March 2022 | <b>ACTION PLAN</b><br>NFRS – CIPFA Financial Management Code | <b>OFFICIAL SENSITIVE</b> |
|--|--|---------------------------|

| Audit Finding   | Recommendation   | Management Response  |
|---|--|--|
| <b>Priority 1 areas</b><br>(Essential for effective internal control, must implement recommendations to improve existing control arrangements)  |  |  |
| <p><b>1. Accountability and Governance</b><br/>Work undertaken by the Executive Officer has revealed that many of the policies and procedures in relation to governance have not been updated for a long time and are outdated. This includes:</p> <ul style="list-style-type: none"> <li>• The Chief Financial Officer (CFO) Scheme of Delegation - the document that governs the CFOs responsibilities and powers;</li> <li>• The Standing Orders – This is essentially the “Rule Book” for running NFRS;</li> <li>• Members Allowance Scheme – This scheme sets out the remuneration entitlement of Members</li> </ul> <p>Also, many of the documents are not available on the intranet or public website.</p> <p>In November 2021, the Policy and Strategy Committee considered a proposal to review NFRS’s constitution and associated governance and this was approved.</p> <p><b>Risk: There may be a lack of effective accountability, governance or control.</b></p> | <p><b>Where policies and procedures have been found to be out of date, these should be revised and approved.</b></p> <p><b>Revised policies should be made available on the intranet and/or public website as appropriate.</b></p> | <p><b>Response</b><br/>The policies will be reviewed and amended in consultation with the Clerk to the Fire Authority (CFA) throughout 2022.</p> <p><b>Date for implementation</b><br/>Ongoing – 31 December 2022</p> <p><b>Officer responsible for implementation</b><br/>Executive Officer and Clerk to the Fire Authority</p> |

|  |  |                           |
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| Internal Audit final report 2021-09 – March 2022 | <b>ACTION PLAN</b><br>NFRS – CIPFA Financial Management Code | <b>OFFICIAL SENSITIVE</b> |
|--|--|---------------------------|

| Audit Finding   | Recommendation  | Management Response   |
|---|---|---|
| <p><b>2. Budgetary Control</b></p> <p>Orders placed on the ICT capital budget exceeded the budget by £125k, although the budget holder had discussed budget requirements with SLT and would have been aware of their budget at the beginning of the year.</p> <p>The ability to overspend is not prevented by system controls. Budget monitoring is carried out with monthly meetings with budget holders (where possible) but this does not always happen if staff are busy or unavailable. Where orders are placed which exceed the budget, this is not flagged up in Agresso and orders over £10k from existing frameworks or contracts are not usually scrutinised by Finance when they are authorised.</p> <p>A review of training materials is underway.</p> <p><b>Risk: Inadequate financial resources to meet commitments. Lack of clarity regarding budgetary control.</b></p> | <p><b>In line with Financial Regulations, budget holders should report on any variances in their own areas and take any action necessary to avoid exceeding their budget allocation.</b></p> <p><b>More robust measures may include:</b></p> <ul style="list-style-type: none"> <li>• <b>budget holders submitting monthly returns to confirm they have reviewed their expenditure</b></li> <li>• <b>having system controls to flag up when the budget is being exceeded.</b></li> </ul> <p><b>The revised training materials should reinforce best practice guidance around budgetary control.</b></p> | <p><b>Response</b></p> <p>Currently looking at an approach to send a system generated email out to budget holders identifying headline budget monitoring which will require a response.</p> <p>System controls are not compatible with the way that the system is built for all budgets. However, an additional process can be built in to check budgetary provision for orders in excess of £10k.</p> <p><b>Date for implementation</b><br/>30 September 2022</p> <p><b>Officer responsible for implementation</b><br/>Assistant Head of Finance</p> |
| <p><b>3. Financial Regulations, Financial Procedures and Statement of Principles</b></p> <p>Financial Regulations set out that the Director of Finance is responsible for maintaining a continuous review of Financial Regulations and submitting any changes to the Fire Authority for approval. Financial Regulations, Procedures and Principles policies have not been updated since 2017 and are now out of date.</p> <p><b>Risk: Outdated requirements that reduce financial controls.</b></p>   | <p><b>Financial Regulations, Financial Procedures and Statement or Principles should be reviewed and updated in accordance with the agreed refresh schedule.</b></p>  | <p><b>Response</b></p> <p>Currently under review.</p> <p><b>Date for implementation</b><br/>30 September 2022</p> <p><b>Officer responsible for implementation</b><br/>Assistant Head of Finance</p>  |

|  |   |                           |
|--|---|---------------------------|
| Internal Audit final report 2021-09 – March 2022 | <b>ACTION PLAN</b><br>NFRS – CIPFA Financial Management<br>Code | <b>OFFICIAL SENSITIVE</b> |
|--|---|---------------------------|

| Audit Finding   | Recommendation  | Management Response   |
|---|---|---|
| <p><b>4. Incomplete or Delayed Audits</b></p> <p>It has been difficult to complete all planned audits in the last two years and some audits were incomplete or delayed due to lack of staff engagement or availability.</p> <p>It is acknowledged that the Covid-19 pandemic has contributed to the pressures, however.</p> <p><b>Risk: The Annual Audit Report may contain a limitation of scope, which would come to the attention of External Audit.</b></p> | <p><b>It is important for all staff to engage in the audit process and SLT should emphasise the importance of clear engagement and communication with Internal Audit.</b></p> | <p><b>Response</b></p> <p>This concern was discussed at the Strategic Leadership Team on 1 February 2022. The Group Manager (Assurance) was in attendance representing NCC Internal Audit.</p> <p><b>Date for implementation</b></p> <p>Completed at SLT on 1 February 2022</p> <p><b>Officer responsible for implementation</b></p> <p>Head of Finance</p> |