

# the role of the chief financial officer

In public service organisations



# CIPFA Statement on the role of the Chief Financial Officer in public service organisations

## The Chief Financial Officer in a public service organisation:

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

## To deliver these responsibilities the Chief Financial Officer:

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

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# \ foreword

The Chief Financial Officer (CFO) occupies a critical position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. While the global financial crisis and economic downturn have made these tasks even more challenging, they have also underlined the fundamental importance of the role.

Achieving value for money and securing stewardship are key components of the CFO's role in public service organisations. But what are the other duties and responsibilities that sit alongside? What aspects of the organisation's activities and business must the CFO be able to contribute to and influence to be fully effective in the role? What are the qualities, skills and knowledge that the CFO must aspire to in order to meet the organisation's needs?

The list of the other potential roles that the CFO might take on is diverse. Different organisations inevitably make different choices. This makes it critically important to be clear about the absolutely essential ingredients that must be in the mix. Without clarity about the fundamental components of the core job, we run the risk that CFOs cannot reach all of the key levers to perform their core financial duties effectively, or address challenges when they arise.

CIPFA has developed this Statement on the Role of the CFO in Public Service Organisations in order to help bring clarity to this complex picture. It sets out an overarching principles-based framework that is intended to apply to all public service organisations and their CFOs, irrespective of where they work. The Statement draws on established

good practice and regulatory requirements, as well as the requirements of CIPFA and other professional accountancy bodies' codes of ethics and professional standards.

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 public service-wide use of the Statement as the benchmark for organisational arrangements. We recommend that all organisations should report publicly on their arrangements, particularly where these do not conform to the governance requirements in the 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 intended to support individual finance professionals. It articulates the core responsibilities of the CFO, as well as the personal skills and professional standards that are crucial to success in the role. In this way it provides an important source of reference for personal development, both for current and aspiring CFOs. We therefore hope that finance professionals at all stages of their careers will find it useful.

**Jon Pittam**

Chair

CIPFA Role of the Public Services Director of Finance Panel

**Steve Freer**

Chief Executive

CIPFA

# definitions used throughout the document

The public services have a variety of organisational structures and governance arrangements. Some include elected representatives, while others are wholly appointed. The following terms are used throughout the Statement in a generic sense. The Statement and the supporting guideline and requirements need to be read in the context of these. Terms in use in different parts of the public services can be substituted for the generic terms used here.

## **Chief Financial Officer (CFO)**

The organisation's most senior executive role charged with leading and directing financial strategy and operations.

## **Leadership Team**

Comprises the Board and Management Team.

## **Board**

The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

## **Management Team**

The group of executive staff comprising the senior management charged with the execution of strategy.

## **Chief Executive**

The most senior executive role in the organisation.

## **Managers**

The staff responsible for the achievement of the organisation's purpose through services/ businesses and delivery to its clients/customers.

## **Finance Function**

The staff with a prime responsibility for financial matters, located either in a central department or within business/service areas. Some functions may be outsourced.

## **Governance<sup>1</sup>**

The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an economical, effective, efficient and ethical manner.

## **Financial Management<sup>2</sup>**

Public Financial Management (PFM) is the system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service goals.

## **Audit Committee**

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

## **Internal Audit**

An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives.

## **Head of Profession**

The leading professionally qualified accountant charged with promoting professional standards within the organisation.

## **Annual Governance Report**

The mechanism by which an organisation publicly reports on its governance arrangements each year.

## **Public Service Organisation**

Public service organisation: One or more bodies managed as a coherent entity with the primary objective of providing public services. The category encompasses both public sector bodies and other organisations whose primary objective is to provide goods or services for the general public or social benefit rather than providing a financial return to equity shareholders.

<sup>1</sup> *The Good Governance Standard for Public Services 2004*

<sup>2</sup> *The CIPFA FM Model 2010*

# introducing the CIPFA Statement

## **The public service context**

Citizen, service user, and taxpayer: all of us occupy one or other of these roles at different times. We all have different priorities and emphases, but our common ground is 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.

These public demands have generated a succession of initiatives, from governments and other institutions, aimed at extracting maximum value from public money. These have variously emphasised sustainability, efficiency and the productive use of resources. They have often been reinforced by inspection and assurance regimes, the intensity of which has ebbed and flowed over time. However the enduring task of the public services remains the resolution of the tension between ever increasing public expectations and increasingly limited funding.

The public services also face frequent structural changes. 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. Expectations of contestability and competition as drivers of value for money are also blurring the boundaries between the public and private sectors. This has increased the variety of governance arrangements, even among similar types of bodies.

## **Good Governance and strong Public Financial Management**

The changing political environment within which decisions are taken and services delivered creates a web of stakeholders whose interests and influences must be acknowledged, understood, managed and balanced. Stakeholders all expect the organisation to report on their business outcomes in different ways.

The focus on ambition and organisational capacity to deliver good public services within a complex environment has strengthened expectations of effective 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.

The role of the CFO is a fundamental building block of good corporate governance. The two critical aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources.

## **The key role played by the CFO**

The CFO, as the organisation's most senior executive role charged with leading and directing financial strategy and operations, occupies a pivotal role, both for external stakeholders and within the Leadership Team. CFOs everywhere have a responsibility to ensure that their organisations control and manage money well, and that strategic planning and decision making are supported by sound analysis. In the public service context, CFOs must also meet the demands of openness and accountability in decision making, balance competition for limited resources across a range of worthwhile objectives, deliver value for money and safeguard taxpayers' money. Delivering these requires a range of personal qualities, as well as support from both the finance function and the organisation as a whole.

It is these expectations, combined with the personal qualities and leadership skills needed for them to be met, that have shaped the CIPFA Statement on the Role of the CFO in Public Service Organisations.

# using the CIPFA Statement

## Statement approach and structure

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

- The Organisation;
- The Role; and
- The Individual.

For each principle the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the CFO role within the organisation. Many of the day-to-day responsibilities may in practice be delegated or even outsourced, but the CFO should maintain oversight and control.

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

## Demonstrating compliance

The Statement supports CIPFA's work to strengthen governance and financial management across the public services. It is intended to allow the Leadership Team of a public service organisation, whether elected, executive or non-executive, to benchmark its existing arrangements against a defined framework.

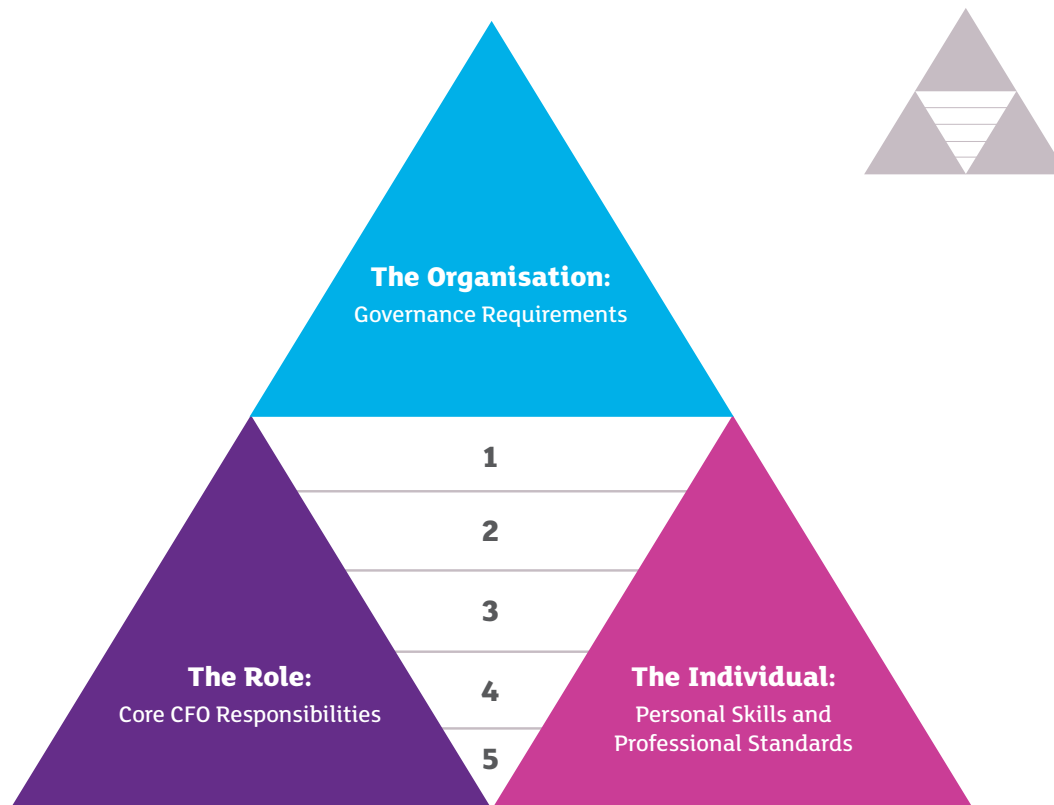
Public service organisations operate within a variety of legal and regulatory structures, and there is a huge range in size and scope of services delivered. The Statement therefore adopts a 'substance over form' approach, focussing on the principles that capture the essential characteristics of the CFO role in any public service organisation.

CIPFA recommends that organisations should use the Statement as the framework to benchmark their existing arrangements, and that they should report publically on compliance to demonstrate their commitment to good practice in both governance and financial management. CIPFA also recommends that organisations should report publicly where their arrangements do not conform with the compliance framework in the Statement, explaining the reason for this, and how they deliver the same impact as those in the Statement.

## Status of the Statement

The Statement does not have the status of a CIPFA Code. Nor does it replace the sector-specific guidance or the codes and professional standards that underpin accountancy bodies' competency and disciplinary frameworks. The aim is that regulators should draw on the Statement when reviewing their own guidance.

On a personal basis, the Statement should help guide both current and aspiring CFOs, by providing a summary of the core responsibilities entailed in the CFO role as well as the personal skills and professional standards necessary to succeed. It should therefore provide a focus for finance professionals' own personal development at all stages of their careers.



## Cipfa Statement on the role of the Chief Financial Officer (CFO) in public service organisations

### The CFO in a public service organisation:

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

### To deliver these responsibilities the CFO:

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







# \ principle 1



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

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

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

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

## **Developing and implementing organisational strategy**

All public service organisations face competition for limited public funds. However they differ in

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

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

The CFO must encourage continuous improvement and development to enable the organisation to deliver at the highest levels. As well as having the fundamental concern for probity and control, the CFO must be proactive in managing change and risk, be focussed on outcomes, and help to resource the organisation's plans for change and development in the public services it provides. As a key member of the Leadership Team, the CFO must also behave in ways that are consistent with the organisation's agreed values and objectives.

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

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

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

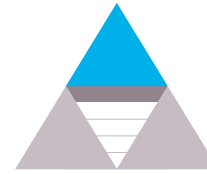
## **Delivering the organisation's strategic objectives sustainably and in the public interest**

Public service organisations have a corporate responsibility to operate within available resources and to remain financially sound over the short, medium and longer term. Maximising public value involves an appreciation of user needs, expectations and preferences, and the planning process must allow for their involvement and influence.

The internal process to determine priorities often then needs to grapple with service rationing and difficult trade-offs between different groups of service users, as well as between present and future benefits. The overarching long term need to match financial resources to the organisation's purposes and policies, within constraints of affordability, taken with the responsibility to citizens and taxpayers for financial stewardship, mean that the CFO must contribute actively to cross organisational issues and to corporate decision making.

Public finance is complex and highly regulated, and the CFO must contribute expert technical advice and interpretation. CFOs must act in the public interest, even if necessary against a perceived organisational interest. In some types of public service organisation this professional obligation is given statutory backing, and a fiduciary duty is established in case law. As holders of the 'red card', the CFO must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the organisation remains a going concern. To ensure that the necessary corrective action is implemented, the CFO must have direct access to the Chief Executive, other Leadership Team members, the Audit Committee and also to external audit.

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



## Governance requirements

## Principle 1

- Set out a clear statement of the respective roles and responsibilities of the Leadership Team and its members individually.
- Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members.
- If different organisational arrangements are adopted, explain the reasons publicly, together with how these deliver the same impact.
- Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the Board, and ensure that it is monitored and updated.
- Ensure that organisation's governance arrangements allow the CFO:
  - to bring influence to bear on all material business decisions; and
  - direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit.
- Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised.
- Assess the financial skills required by members of the Leadership Team and commit to develop those skills to enable their roles to be carried out effectively.



## Core CFO responsibilities

## Principle 1

- Contributing to the effective leadership of the organisation, maintaining focus on its purpose and vision through rigorous analysis and challenge.
- Contributing to the effective corporate management of the organisation, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.
- Supporting the effective governance of the organisation through development of
  - corporate governance arrangements, risk management and reporting framework; and
  - corporate decision making arrangements.
- Leading or promoting change programmes within the organisation.
- Leading development of a medium term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.
- Ensuring the medium term financial strategy reflects joint planning with partners and other stakeholders.



## Personal skills and professional standards

## Principle 1

- Role model, energetic, determined, positive, robust and resilient leadership, able to inspire confidence and respect, and exemplify high standards of conduct.
- Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.
- Build robust relationships both internally and externally.
- Work effectively with other Leadership Team members with political awareness and sensitivity.
- Support collective ownership of strategy, risks and delivery.
- Address and deal effectively with difficult situations.
- Implement best practice in change management and leadership.
- Balance conflicting pressures and needs, including short and longer term trade-offs.
- Demonstrate strong commitment to innovation and performance improvement.
- Manage a broad portfolio of services to meet the needs of diverse communities.
- Maintain an appropriate balance between the deeper financial aspects of the CFO role and the need to develop and retain a broader focus on the environment and stakeholder expectations and needs.
- Comply with the IFAC Code of Ethics for Professional Accountants, as implemented by local regulations and accountancy bodies, as well as other ethical standards that are applicable to them by reason of their professional status. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Impartiality is a further fundamental requirement of those operating in the public services.





# \ principle 2



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

## **Responsibility for financial strategy**

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

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

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

## **Influencing decision making**

Public service organisations must be rigorous in their decision making, be explicit about the reasons for their decisions and record the supporting information and expected impact. This requires

the CFO to be actively involved in, and able to bring influence to bear on all material business decisions whenever and wherever they are taken.

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

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

## **Financial information for decision makers**

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

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



## Governance requirements

## Principle 2

- Establish a medium term business and financial planning process to deliver the organisation's strategic objectives, including:
  - a medium term financial strategy to ensure sustainable finances;
  - a robust annual budget process that ensures financial balance; and
  - a monitoring process that enables this to be delivered.
- Ensure that professional advice on matters that have financial implications is available and recorded well in advance of decision making and used appropriately.
- Ensure that those making decisions are provided with information that is fit for the purpose – relevant, timely and giving clear explanations of financial issues and their implications.



## Core CFO responsibilities

## Principle 2

### Responsibility for financial strategy

- Agreeing the financial framework with sponsoring organisations and planning delivery against the defined strategic and operational criteria.
- Maintaining a long term financial strategy to underpin the organisation's financial viability within the agreed performance framework.
- Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.
- Appraising and advising on commercial opportunities and financial targets.
- Developing and maintaining an effective resource allocation model to deliver business priorities.
- Leading on asset and balance sheet management.
- Co-ordinating the planning and budgeting processes.

### Influencing decision making

- Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.
- Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.
- Ensuring that the organisation's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.
- Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.

### Financial information for decision makers

- Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.
- Preparing timely management accounts.
- Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.



## Personal skills and professional standards

## Principle 2

- Implement appropriate management, business and strategic planning techniques.
- Link financial strategy and overall strategy.
- Demonstrate a willingness to take and stick to difficult decisions – even under pressure.
- Take ownership of relevant financial and business risks.
- Network effectively within the organisation to ensure awareness of all material business decisions to which CFO input may be necessary.
- Role model persuasive and concise communication with a wide range of audiences internally and externally.
- Provide clear, authoritative and impartial professional advice and objective financial analysis and interpretation of complex situations.
- Apply relevant statutory, regulatory and professional standards both personal and organisational.
- Demonstrate a strong desire to innovate and add value.
- Challenge effectively, and give and receive constructive feedback.
- Operate with sensitivity in a political environment.







# \ principle 3



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

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

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

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

## **Value for money**

The CFO has a key role to play in balancing control and compliance with value creation and performance.<sup>4</sup> Better value for money releases

resources that can be recycled into higher priorities, without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role in the public service organisation.

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 CFO will need to take the lead in coordinating and facilitating a culture of efficiency and value for money. This will involve approaches and techniques such as

- Enabling the 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 stretching utilisation, and the productive use of other resources;
- Providing leadership in using and developing efficiency tools and techniques, including benchmarking, IT, shared services, process analysis and cost management, collaborating with others where this is more efficient, effective or economical; and
- Ensuring the rigorous financial appraisal and oversight of change programmes, income generation proposals and investment projects.

## Safeguarding public money

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

The CFO also has a specific role with regard to stewardship. This includes ensuring that the governance structures codify financial control, internal control, risk management and assurance, as well as defining a framework of financial accountabilities and reporting.

## Assurance and scrutiny

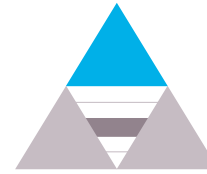
Accountability for public expenditure is a core requirement for public service organisations. They are held accountable by intermediary stakeholders, such as scrutiny groups, service inspectorates and external auditors, and by primary stakeholders: the citizens, service users, funders and taxpayers.

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

Internal audit is an important independent internal scrutiny activity. The CFO must support the organisation's internal audit arrangements, whether the function reports directly to the CFO or the Chief Executive, and ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

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

<sup>4</sup> *IFAC – PAIB 'The Roles and Domain of the Professional Accountant in Business' 2005*



## Governance requirements

## Principle 3

- Make the CFO responsible for ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control.
- Ensure that systems and processes for financial administration, financial control and protection of the organisation's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.
- Address the organisation's arrangements for financial and internal control and for managing risk in Annual Governance Reports.
- Publish annual accounts on a timely basis to communicate the organisation's activities and achievements, its financial position and performance.
- Maintain and resource an effective internal audit function.
- Develop and maintain an effective Audit Committee.
- Ensure that the organisation makes best use of resources and that taxpayers and/or service users receive value for money.
- Embed financial competencies in person specifications and appraisals.
- Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out effectively.



## Core CFO responsibilities

## Principle 3

### Promotion of financial management

- Assessing the organisation's financial management style and the improvements needed to ensure it aligns with the organisation's strategic direction.
- Actively promoting financial literacy throughout the organisation.

### Value for money

- Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function.
- Developing and maintaining appropriate asset management and procurement strategies.
- Managing long term commercial contract value.

### Safeguarding public money

- Applying strong internal controls in all areas of financial management, risk management and asset control.
- Establishing budgets, financial targets and performance indicators to help assess delivery.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that delegated financial authorities are respected.
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Overseeing of capital projects and post completion reviews.
- Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.
- Implementing appropriate measures to prevent and detect fraud and corruption.
- Establishing proportionate business continuity arrangements for financial processes and information.
- Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.

### Assurance and scrutiny

- Reporting performance of both the organisation and its partnerships to the board and other parties as required.
- Supporting and advising the Audit Committee and relevant scrutiny groups.
- Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.
- Liaising with the external auditor.



## Personal skills and professional standards

## Principle 3

- Generate 'buy-in' to, and support delivery of, good financial management across the organisation.
- Develop and sustain partnerships, and engage effectively in collaboration.
- Deploy effective facilitation and meeting skills.
- Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.
- Place stewardship and probity as the bedrock for management of the organisation's finances.





# \ principle 4



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

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

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

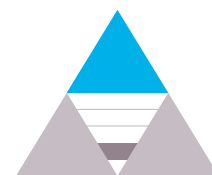
Whatever the structure, a strong customer focus both externally and internally must be a key feature of the way the finance function does business. It must support the organisation's broader development agenda, by appraising investment options and change programmes and contributing creative financial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

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

## **Appropriately developed finance skills**

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

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



## Governance requirements

## Principle 4

- Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.
- Ensure there is a line of professional accountability to the CFO for finance staff throughout the organisation.



## Core CFO responsibilities

## Principle 4

- Leading and directing the finance function so that it makes a full contribution to and meets the needs of the business.
- Determining the resources, expertise and systems for the finance function that are sufficient to meet business needs and negotiating these within the overall financial framework.
- Implementing robust processes for recruitment of finance staff and/or outsourcing of functions
- Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.
- Seeking continuous improvement in the finance function.
- Identifying and equipping finance staff, managers and the Leadership Team with the financial competencies and expertise needed to manage the business both currently and in the future.
- Ensuring that the Head of Profession role for all finance staff in the organisation is properly discharged.
- Acting as the final arbiter on application of professional standards.



## Personal skills and professional standards

## Principle 4

- Create, communicate and implement a vision for the finance function.
- Role model a customer focussed culture within the finance function.
- Establish an open culture, built on effective coaching and a “no blame” approach.
- Promote effective communication within the finance department, across the broader organisation and with external stakeholders.
- Apply strong project planning and process management skills.
- Set and monitor meaningful performance objectives for the finance team.
- Role model effective staff performance management.
- Coach and support staff in both technical and personal development.
- Promote high standards of ethical behaviour, probity, integrity and honesty.
- Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the finance function.
- Promote discussion on current financial and professional issues and their implications.



# \ principle 5



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

## **Demonstrating professional and interpersonal skills**

The CFO must be able to demonstrate their own professional standing to exercise financial leadership throughout the organisation. As a member of a professional body, the CFO's skills, knowledge and expertise will have been tested by examination and must be continuously developed in a structured and monitored context. The CFO must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and promote these throughout the finance function.<sup>5</sup>

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

## **Applying business and professional experience**

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

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

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

<sup>5</sup> IFAC: Code of Ethics, 2005





## Governance requirements

## Principle 5

- Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.
- Ensure that the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role.



## Personal skills and professional standards

## Principle 5

- Be a member of an accountancy body recognised by the International Federation of Accountants (IFAC), qualified through examination, and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers.
- Adhere to international standards set by IFAC on:
  - ethics
  - Continuing Professional Development.
- Demonstrate IT literacy.
- Have relevant prior experience of financial management in the public services or private sector.
- Understand public service finance and its regulatory environment.
- Apply the principles of corporate finance, economics, risk management and accounting.
- Understand personal and professional strengths.
- Undertake appropriate development or obtain relevant experience in order to meet the requirements of the non-financial areas of the role.

# \ appendix

## **Membership of the Public Services Director of Finance Panel**

**Jon Pittam** (Chair)  
Hampshire County Council

**Graham Duncan / Lindsay Bell**  
Department for Communities and Local Government

**Ally Cook**  
Formerly of Sport England

**Christine Daws**  
Welsh Assembly Government

**Steve Freer**  
CIPFA

**Alan Geddes**  
Highland Council

**Lin Homer**  
Borders and Immigration Agency

**Chris Jackson**  
ICAEW

**Paul Keane**  
National Audit Office

**Claire Newton**  
Great Ormond Street Hospital

**Gareth Moss**  
Bridgend County Borough Council

**Kevin Orford**  
East Midlands Strategic Health Authority

**Tony Redmond**  
Commission for Local Administration

**Jon Thompson**  
Ministry of Defence

**Lee Yale-Helms**  
PricewaterhouseCoopers

**Ian Carruthers** (Secretary)  
CIPFA

**Carole Hicks** (Technical support)  
CIPFA

CIPFA are grateful to all the members of the Panel for their invaluable contributions, as well as to Sue Beauchamp for her help with the initial drafting. The statement was widely circulated for comment during its drafting and many individuals and organisations responded giving us additional insights into how the CFO operates in practice across the public services.



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