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Our ref: ICAEW Rep 21/09

Your ref:

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By email: rofd.responses@cipfa.org

Dear Carole

THE ROLE OF THE FINANCE DIRECTOR IN PUBLIC SECTOR ORGANISATIONS

The Institute of Chartered Accountants in England and Wales welcomes the opportunity to comment on the consultation paper *The role of the finance director in public sector organisations* published by CIPFA in December 2008.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 750,000 members worldwide.

Overall, the document is well written, covers the right sort of ground and is structured effectively. We think it is a good contribution to the debate.

We have a slight concern that it tends to emphasise the stewardship component of the FD's role rather than financial management (analysis, VFM, performance management, planning, systems etc). In a similar vein it does not really cover the business and functional transformation side of the FD's role, reshaping the finance function and a "thought leadership" aspect. It does mention, but perhaps does not highlight enough, the fact that the FD in government has multiple stakeholders with often conflicting demands. In contrast, a private sector CFO has the relative luxury of concentrating on his shareholders.

Are the approach and style of the statement right? If not, what changes would you suggest?

We agree that the approach and style are right, but generally the statement appears to be inconsistent in respect to Boards. The statement would benefit from emphasising that Board or collegiate responsibility exists among the leaders of an organisation in order for the FD to meet these principles

e.g. in page 8. 2nd section 'Influencing decision making' - line 8 refers to 'top level decision makers'. This seems to contradict the lead role that the statement expects the FD to have.

The statement reads as if it relates to central government organisations yet it also refers to Executives and NEDs.

For the statement to be a reality organisations should formally accept the statement, i.e. the Board, CEO and Audit Chair, and ideally to reaffirm this on each new FD appointment.

The statement could include a bullet point on actually creating the financial strategy, e.g. 'leads the development, approval and maintenance of a medium to long term financial strategy'. This would provide a link to the emphasis given to strategy in the 2nd bullet.

We suggest that the point about being professionally qualified should also say 'evidence that CPD has been maintained'.

The bullet on professional qualification does not state what level of professional qualification would be acceptable.

Do the five principles cover the right ground? If not, how might they be amended or augmented?

In our opinion the principles are generally appropriate. The principles are descriptive and passive rather than active. The principles could follow the financial principles of the combined code and be more direct.

Principle 2

The balance sheet and cash flow are only given limited mention (Page 9). Currently it reads as if these fundamentals are divorced from the strategy.

Principle 3

It would be helpful if the principle was specific about maintaining a good system of internal financial control and setting the control environment.

Principle 4

We believe that the FD should be a suitably qualified accountant.

Are there any aspects of the statement that would reduce its relevance, or prevent it being applied in any areas of the public services? Please explain any potential issues and suggest appropriate alternatives.

The main point of the statement appears to relate to the inclusion of a comment in the annual governance statement in the event of a failure to comply. Any Board that compromises an FD's role in such a way is unlikely to be deterred by the need to make such a statement, nor indeed would the FD have the clout to have it included in such an event.

Do you support CIPFA's view that organisations should confirm compliance with the statement in their annual governance statements?

The annual governance statements should have a positive statement in this respect, and one that is couched in terms of overall board responsibility. However it would be difficult to demonstrate compliance with certain areas, for example "Demonstrating professional and interpersonal skills".

In cases of non-compliance, the reasons should be clearly stated and fully justified.

Would requiring organisational arrangements where the finance Director is not a member of the senior team that exercises management leadership, with a status equivalent to other members, to be explained publicly, together with how this delivers the same impact, deter non-compliance? if not how could this be done?

We doubt this would deter non-compliance. In the NHS, the CEO has 'Accountable Officer' status for the Trust with direct responsibility via the NHS Accountable Officer to Parliament, as well as to the Board. If the need to have a qualified FD as part of the senior management decision making group was explicit within the duties given to the CEO or organisational lead, that would work.

It is not clear what this question is addressing but if it is referring to an equivalent of an audit committee then this would be a good idea.

Who should sign the compliance statement on behalf of the organisation?

The CEO and/or CFO and/or Chair of the Audit Committee were suggested signatories.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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