



Financial Management Maturity Model

Overview of practice, awareness and expected outcome for each maturity level

	Practice	Awareness	Expected outcome
Leading edge	<p>5</p> <p>The organisation has in place financial management practices that are leading edge and allow it to anticipate both challenges and key opportunities, in order to optimise its performance.</p>	<p>The organisation places an emphasis on continually striving for excellence in financial management and seeks opportunities to improve which are inventive and might sometimes be radical.</p>	<p>The organisation anticipates and responds to the challenge of changing circumstances and looks ahead to anticipate significant events. It delivers programmes to time, cost and planned level of quality, with very few exceptions. It seeks efficiencies and improves the services it delivers while minimising potential increases in costs. There is a sophisticated understanding of the organisation's cost base in terms of understanding the key drivers of different services and products.</p>
Professional	<p>4</p> <p>The organisation has in place professional financial management practices which enable it to cope effectively in challenging times and will identify some opportunities to improve its performance.</p>	<p>The organisation continually reviews its financial management processes and makes improvements to build upon and develop the current methods.</p>	<p>The organisation responds to challenge in good time and looks ahead to anticipate most significant impacts. Most programmes are delivered to time, cost and planned level of quality. It understands the impact of change on the costs and performance of different programmes and is able to deliver cost efficiency programmes.</p>
Adequate	<p>3</p> <p>The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances, and enable it to develop but will not be sufficient in challenging times.</p>	<p>The organisation will try to improve financial management as a result of responding to the need for change as opposed to engaging in a continued drive for improvement. It may be shocked into significant change by crisis.</p>	<p>The organisation manages well when the environment is familiar and stable. It may be significantly challenged by unforeseen events, or by government administration changes or new initiatives. Programmes are not always delivered to time, cost and planned level of quality due to difficulties in anticipating and responding to risks in a timely manner. The organisation will achieve cost reduction through a combination of efficiency programmes and budget cutting.</p>
Basic	<p>2</p> <p>The organisation has in place financial management practices that are basic and allow it to function on a day-to-day basis but do not support the organisation to develop.</p>	<p>The organisation has some awareness that it needs to improve its financial management but does not actively do so. Improvements are rarely made.</p>	<p>The organisation is aware of a number of issues with the current financial management processes, which have been highlighted by sources such as external and internal audit. It becomes aware of potential overspends too late to be able to bring them back into line. Some of the major projects are regularly over time and cost and are of less than expected quality. The organisation reacts to reductions in funding by budget cutting due to a lack of understanding of the impact of changes on the costs and performance of programmes.</p>
Inadequate	<p>1</p> <p>The organisation has some financial management practices in place but they are inadequate in that there are many gaps which affect the day-to-day running of the organisation.</p>	<p>The organisation has little awareness of the need to improve financial management and makes very little effort to make changes.</p>	<p>The organisation receives funding and spends it with little awareness of how to drive improvements in efficiency or of the results it may obtain from the expenditure. Budgets are frequently over-spent with limited understanding of the causal factors and no remedial action planned. Projects frequently overrun on cost and time and the intended benefits (if they are defined) are often not delivered. It may have major project failures, and is at risk of suffering from fraud.</p>

Theme – Financial governance and leadership

Question 1 What emphasis do the board and executive team place on their own responsibility and on a culture of collective responsibility for financial matters?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>The organisation has some financial management practices in place but they are inadequate in that there are many gaps which affect the day-to-day running of the organisation.</p> <p>The board and executive team do not act collectively on financial matters. They receive financial information infrequently and information is limited in detail. There is limited communication of financial information to staff.</p>	<p>The organisation has in place financial management practices that are basic and allow it to function on a day-to-day basis but do not support the organisation to develop.</p> <p>The board and executive team tend not to act collectively. Instead each member tends to represent their own areas of responsibility. Non-executive members challenge infrequently and tend only to question executive members within the confines of each executive's area of responsibility. The receipt of financial information is not timely and its content is unlikely to enable regular financial scrutiny.</p> <p>Engagement in financial management tends to increase when prompted by the threat of a serious or externally embarrassing financial situation. There is some communication of high level financial information to staff; however, no narrative is provided as to its relevance.</p>	<p>The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances, and enable it to develop but will not be sufficient in challenging times.</p> <p>The board and executive team act collectively by discussing performance as a team, across individual spheres of responsibility.</p> <p>Financial information is received with a frequency appropriate to the organisation's needs.</p> <p>The board and executive team monitor both financial and performance information. However, while they discuss performance regularly, they are slow to take action based on this information unless spurred into action by a crisis. Financial information is communicated to staff within their area of responsibility with some indication as to its relevance.</p>	<p>The organisation has in place professional financial management practices which enable it to cope effectively in challenging times and will identify some opportunities to improve its performance.</p> <p>The board and executive team demonstrably act collectively by making strategic decisions as a team about the direction of the organisation and its activities. Non-executive members frequently challenge the board and executive team as a whole.</p> <p>The board and executive team Members receive financial information frequently. They can use the integrated financial and performance information received to fully understand the position of the organisation and to collectively challenge senior staff when required. They take action promptly, when required, and make strategic decisions about whether or not to engage in areas of activity. Key financial information is regularly communicated to staff and its relevance is clear.</p>	<p>The organisation has in place financial management practices that are leading edge and allow it to anticipate both challenges and key opportunities, in order to optimise its performance.</p> <p>The board and executive team act collectively by making decisions as a team regarding strategic and complex issues such as the uptake of potential business opportunities. Non-executive members are actively engaged in guiding the organisation. Executives challenge one another in a professional manner.</p> <p>The board and executive team receive financial information with an appropriate frequency. They also request and review bespoke pieces of financial analysis as necessary.</p> <p>The board examines the link between investment, costs and service delivery.</p> <p>The board and executive team emphasise the importance of financial information throughout the organisation by routinely and productively challenging staff on the information they have produced. They create opportunities and incentives for staff to drive continuous improvement.</p>

Question 2 How do the systems of internal control, governance arrangements and risk management processes operate?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>There are few policies and procedures in place, and those that are in place do not clearly define the operations and workings of the business, resulting in poor control and exposure to risk.</p> <p>A significant number of staff do not follow the policies and procedures that are in place and little enforcement occurs.</p> <p>A risk register may be in place but its content is generic and is not tailored to the organisations' circumstances. It may not be regularly reviewed.</p>	<p>The system of internal control is basic with some policies and procedures in place.</p> <p>The controls are not updated regularly with developments in the business processes and risk environment meaning that not all risks are addressed with adequate controls.</p> <p>Staff often fail to comply with processes and procedures in place. Monitoring of compliance does occur but it tends to be very high level and does not address reasons for non-compliance.</p> <p>The risk register is somewhat tailored and includes some of the key risks to which the organisation is likely to be exposed but it is not monitored or reviewed.</p>	<p>A fit for purpose system of internal control is in place supported by governance arrangements which ensure that controls are implemented and exposure to risk is minimised. The importance of these controls is communicated to staff, who in the main comply with the processes and procedures.</p> <p>Adherence to the controls is monitored and non-compliance is acted upon and redressed. The systems are reviewed and updated on a planned cycle (e.g. three or four years) or more frequently if prompted by significant events. The risk register considers a wide range of internal and external risks to which the organisation is exposed and risk is considered as a standing agenda item at board and management meetings. The register is reviewed periodically by the board and executive team with consideration of actions required to enhance the management of priority risks.</p>	<p>A robust system of internal control is in place. Internal control and governance processes are clearly set out and their importance is emphasised to all staff. Non-compliance with policies and procedures is rare. Lessons learnt from non-compliance are used to drive changes and improvements in the processes.</p> <p>The policies and procedures are regularly reviewed and updates made as necessary to ensure that they reflect the workings of the business of the organisation and minimise exposure to risk.</p> <p>The overall risk register for the organisation is aligned to the risk registers for individual departments and risk management is integrated with other business processes. The risk register considers and measures the adequacy of controls in place and defines specific actions to enhance the management of priority risks. Early warning indicators have been identified and decisions are made with cognisance of risk appetite.</p>	<p>A highly effective system of internal control is in place.</p> <p>The board, senior management, junior management and staff routinely demonstrate their knowledge and adherence to the controls in place. Non-compliance with policies is extremely rare and would tend to occur on an exception basis in relation to specific issues which are then acted upon.</p> <p>Feedback is sought routinely so as to update and improve systems. Challenge to the processes is welcomed to introduce improvements.</p> <p>The overall risk register and the departmental risk registers contain an assessment of the extent to which key controls mitigate risks and identify any additional controls which may be required. Risk management is fully integrated with other business processes and risk management is used as a tool to support decision making. Risk appetite has been defined including quantitative and qualitative risk factors and business decisions are made with cognisance of the organisation's risk appetite.</p> <p>The organisation is selective in its application of processes and procedures and actively removes those which may be ineffective or redundant as the organisation develops. The organisation strives to adopt controls and procedures which are lean, streamlined and value added, avoiding overly bureaucratic or time consuming processes.</p>

Question 3 What financial management capability have the board and executive team (including the audit committee), the finance department, and staff working outside finance?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>There is no financial expertise in the board and executive team.</p> <p>The finance department is significantly understaffed or consists of a significant number of unqualified or inexperienced staff.</p> <p>Operational managers outside of finance have little or no understanding of financial management.</p>	<p>There is little financial expertise within the board and executive team. The senior executive responsible for finance may not necessarily attend the board meetings.</p> <p>The audit committee does not have appropriately experienced non-executive directors.</p> <p>The finance department is somewhat understaffed or the majority of staff are unqualified or inexperienced.</p> <p>Some operational managers outside of the finance department may have a basic understanding of the need for financial management but there is little technical expertise.</p>	<p>Some members of the board and executive team have appropriate training and expertise in financial management. The board and the executive team seek external professional assistance on financial management where necessary to resolve issues that have arisen.</p> <p>The senior executive responsible for finance is professionally qualified and attends board meetings as required</p> <p>A non-executive director chairs the audit committee which has sufficiently experienced non-executive directors.</p> <p>The majority of finance staff are qualified or sufficiently experienced. The finance team is well established and adequately staffed</p> <p>The majority of operational managers outside of the finance department have a good understanding of the need for financial management, their obligation to deliver financial management under their roles and a basic level of expertise. They are able to review their budgets and identify the reasons for variances.</p> <p>Financial models are used for financial management purposes by staff members. Staff are capable of maintaining and updating the models.</p>	<p>There is a good representation of finance skills and experience on the board and executive team. Advice from external professional services practices on the quality and adequacy of the financial management processes within the organisation are sought routinely.</p> <p>The senior executive responsible for finance is professionally qualified, sits on the board, and acts as a champion for financial management. A non-executive director with financial experience chairs the audit committee.</p> <p>Most staff within the finance team have qualifications/ experience appropriate to their role and grade, with only a few exceptions.</p> <p>Operational managers have objectives for financial management which form part of their performance appraisals and they have or are provided with the opportunity to acquire the pre-requisite skills to deliver on these objectives.</p>	<p>There is a good representation of financial skills and expertise within the board and executive team, tailored to the needs of the organisation, the composition of the board is appropriate to the needs of the organisation and does not excessively focus on finance skills at the expense of service development.</p> <p>The board, executive team and staff at all levels maintain and demonstrate the financial management expertise they need for their roles.</p> <p>External advice on improving the quality of financial management within the organisation is sought routinely as the quality of financial management is reviewed periodically.</p> <p>A financially qualified non-executive director chairs the audit committee. The capabilities of the finance team are regularly reviewed to ensure that all staff have the relevant qualifications/skills and are undergoing training appropriate to their role.</p> <p>Operational managers are appraised against appropriate personal objectives for financial management.</p> <p>Complex financial models are used. New models are built internally as the necessity arises. These new models are tested prior to being put into use and training is provided to new users. Models used by the organisation are audited by external experts periodically.</p>

Question 4 What training and continuous professional development in financial management is provided to staff both within and outside the finance team?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>There is no corporate programme for training or continuous professional development in financial management at board, senior executive, and operational management level or for the finance team. Staff are free to make their own arrangements.</p>	<p>There is a training programme in financial management for staff within the finance team which meets basic needs but is not tailored to public sector financial management. It does not constitute a programme of continuous professional development. No training is provided to the operational managers outside of the finance team wishing to increase their expertise in financial management and in the tools necessary for effective financial management.</p> <p>Financial management is covered at a high level in board induction.</p>	<p>There is both a training programme on financial management and a programme of continuous professional development for staff within the finance function. Support is provided to finance staff who wish to gain further qualifications in finance, if agreed as part of a business case. There is optional training for managers outside of the finance function in basic financial management and finance skills to facilitate effective financial management. The organisation encourages take up of these courses but few managers have done so.</p> <p>Financial management is fully included in board induction training. Board members can competently critique the financial management undertaken by Management staff.</p>	<p>Competency frameworks, professional training and continuous professional development are in place. The organisational culture encourages both professional development and recognises the need for investment in people. Expertise in financial management is seen as important for career progression and support is provided for staff to gain further qualifications as appropriate.</p> <p>All operational managers must complete a course in basic finance skills, tailored to their ability to meet the public financial management element of their role.</p> <p>Financial management is considered a core area in board induction training.</p>	<p>A robust corporate training and continuous professional development programme is in place. A 'learning organisation' culture is apparent, meaning that the organisation invests appropriately in the development of all staff as a means to achieve business excellence.</p> <p>Expertise in financial management is seen as a prerequisite for career progression in many roles. There is both mandatory and additional optional training for operational managers who wish to develop their financial management expertise.</p> <p>Management regularly make submissions into this programme and are proactive in improving financial management techniques in the organisation.</p> <p>Financial management is integral to the board induction training undertaken in the organisation. The content of the course is reviewed regularly and updated in line with developments in best practice. Board members must complete regular refresher courses in addition to the initial induction training. There is collaboration between the parent department and state bodies on the content and format of training undertaken.</p>

Theme — Financial planning

Question 5 How is financial planning and monitoring integrated with the organisation's strategic and corporate planning processes?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>The strategic, corporate and financial planning processes are not co-ordinated.</p> <p>The organisation engages in the annual estimates process to secure public sector funding from their parent department for the next financial year.</p> <p>Plans are prepared just in time for this process.</p> <p>The plans are not referred to subsequently; meaning that there is no review of actual performance against what was intended. Within the organisation's plan, there is no involvement of or consideration given to other bodies who may also report into the organisation's parent department.</p>	<p>There is a basic level of alignment between the strategic, corporate and financial planning processes within the organisation.</p> <p>Significant manual work is required by staff to align the plans at a high level due the use of separate financial systems which are not integrated.</p> <p>The plans cover the next financial year and are therefore not aligned with medium to long term strategy.</p> <p>These plans are not readily adaptable to change and often need to be updated mid-year due to changes in activity/resource requirements rendering the plan out of date.</p> <p>The financial systems used do not have the capability to automatically update these plans to reflect the necessary changes. As a consequence the board and executive team are unable to assess whether money is being spent as intended and whether desired outcomes are being achieved.</p>	<p>There is some integration of financial planning processes for the most strategically sensitive areas of the business.</p> <p>A strategic plan is in place supported by a basic financial model which can be automatically updated for key changes during the year.</p> <p>The plans are produced for the next two to three years. There is involvement of operational managers in producing both the strategic and financial plans for the most sensitive areas of the business and this plan is fully signed off by the board and executive team and aligned with their parent department's plan. These plans are submitted to the Department for Public Expenditure and Reform when required.</p> <p>There is no active consultation to seek sectoral views.</p>	<p>Senior management is clear about the strategic direction of the organisation over the next three years. Financial and operational plans are aligned with the strategic direction both at organisational level and that of the organisation's parent department.</p> <p>The plans are produced for the next three years, and occasionally longer for some aspects of the business where there are longer term plans. These plans are fully signed off by the board and submitted to their parent department for approval when required.</p> <p>Financial planning produces timely information so that budgets and forecasts are readily updated in response to approved and necessary changes and used to help manage the organisation. There is some consultation with external stakeholders in the development of the plans.</p>	<p>Senior management is clear about the strategic direction of the organisation in the short, medium and longer term (where appropriate). The board ensures that it is able to focus on the longer term strategic imperatives.</p> <p>Financial and operational plans are fully aligned to the strategy at all levels and submitted to their parent department for approval when required.</p> <p>Plans include forecasts over 5 to 10 years (or more if the business requires it) so that longer term changes in the environment can be factored into plans.</p> <p>Financial planning produces timely information so that budgets and forecasts are routinely updated and highlight emerging changes so that remedial action can be taken in a timely manner.</p> <p>Planning processes include active co-ordination with external stakeholders, in order to co-ordinate effort, remove duplication and deliver economies.</p> <p>There is clear integration between strategic planning, operational/business planning, and financial planning and risk management activities.</p>

Question 6 How robust and streamlined are the systems for financial planning?

<p>Level 1: Inadequate</p>	<p>Level 2: Basic</p>	<p>Level 3: Adequate</p>	<p>Level 4: Professional</p>	<p>Level 5: Leading edge</p>
<p>There are few systems in place and these systems are not aligned across the organisation. Senior management do not look to improve financial planning systems.</p> <p>Financial planning is carried out annually by the finance function, largely in isolation of operational staff and using limited planning tools. The plans are not updated during the year.</p> <p>There is a lack of understanding of the importance of financial planning due to failure to involve staff in the process and outline their responsibilities. The lack of accountability lines means that staff are not encouraged to flag surplus budgets or make efficiency savings.</p>	<p>There are some systems in place. These systems do not align easily across the organisation and are inefficient and cumbersome. Significant manual resources are required to prepare plans and budgets. Additional supporting spreadsheets are required to reconcile the systems.</p> <p>Financial planning is performed and updated by the Finance Function in the organisation. There is some consultation with operational managers. While staff are asked to declare surpluses, there is little scrutiny or challenge of staff who fail to declare a surplus but report one at the year end.</p> <p>There is a regular review of the systems to advise next year's estimates but little action is taken to improve them during a given financial year.</p>	<p>There is a number of systems in place for financial planning which include basic sensitivity analysis and scenario planning around areas which are known to be volatile.</p> <p>The systems are clearly set out so that they are simple to follow and easily understood and may be replicated across the organisation. These systems tend to be repetitive, however, rarely adapted and not fully aligned to organisational needs. The mechanics of the budget preparation are straightforward and readily understood.</p> <p>While the Finance Function staff co-ordinate and manage the financial planning process, there is significant consultation with operational staff in good time to inform the estimates.</p> <p>Staff are asked to produce efficiency savings and declare surpluses as part of their role objectives. There is a degree of challenge by the board and CFO of those areas which historically produce surpluses and of staff who do not adjust their plans or who over bid each year.</p>	<p>The systems are streamlined and aligned to organisational need, and include sensitivity analysis and scenario planning around significant variations in assumptions in the short to medium term.</p> <p>Operational management is responsible for producing financial plans with support from finance staff. Operational managers work together to prepare financial plans for their area. In this way, plans are driven by the business, with support, expertise and co-ordination provided by the finance team.</p> <p>Staff are incentivised to budget through challenges made to budget requests, and to declare surpluses or areas for efficiency improvements.</p> <p>There is transparency regarding deficits, including those offset by funding from another area. Staff receive feedback on the results of the planning process and on their performance against budget.</p> <p>The organisation reviews its processes every three to five years and uses feedback to improve them.</p> <p>Non-value adding stages in the planning process have been stripped out.</p>	<p>Sensitivity analysis and scenario planning is performed for all significant areas which may impact on short and long-term plans for the organisation.</p> <p>Operational managers own the process, which is streamlined and adapted regularly to meet organisation requirements, with the finance team operating as an effective support function.</p> <p>Operational managers work together to devise the best budgets for realisation of the strategy and objectives of the organisation as a whole. The planning processes take account of the perspectives of external partnerships and stakeholders.</p> <p>Operational managers routinely scrutinise budgets, declare surpluses and suggest areas for efficiency improvement. Staff are encouraged to engage in financial prudence.</p> <p>Objectives for financial planning and monitoring are built into operational managers' objectives.</p> <p>Strategies and plans are clearly communicated to staff (who are consulted about them as well). The executive team regularly review the outcomes of the process, and the process itself, to identify areas for improvement. Non-value adding stages in the planning process have been stripped out.</p>

Question 7 How does the financial planning undertaken cover the elements needed to support the business: for example annual financial plans, integrating current expenditure plans and investment programmes, treasury management, cash flow and balance sheet projections?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>Financial planning covers only a few of the areas that support the business. These areas tend to be operational in nature and are only undertaken where issues have occurred previously. While the financial aspects of some initiatives may be recognised, there is little or no organisational investment control.</p>	<p>Financial plans cover some elements of the organisation's business but there are some significant omissions. The organisation tends to focus on income and expenditure projections and is unlikely to produce balance sheet forecasts or investment statements throughout the year.</p> <p>There are some processes in place for investment management but organisational investment priorities are not established.</p>	<p>Financial planning covers the key areas of the business over the next financial year as a minimum. Planning methods encompass both traditional planning tools and integrate elements of performance based budgeting.¹</p> <p>There are established standards for the investment management process. These standards are followed and failure to provide sufficient information is identified during the process.</p> <p>Most significant investment plans are aligned to organisational priorities. There is some consideration of the organisation's cash flow but there is no contingency planning.</p>	<p>Financial planning covers all activities of the business to an appropriate level. For some areas, planning may be linked to longer term objectives rather than only those for the next year or two. All financial planning is performance based and is cognisant of the service levels achieved with approved resources in previous periods.¹ The financial plan includes a clear assessment of the organisation's cash flow requirements and how it will meet them over the planning period, including contingency measures.</p> <p>The organisation has effective and robust financial control of its investment decisions and the approval and monitoring of initiatives at both operational and board and executive team level.</p> <p>Income and expenditure, balance sheet, cash flow and investment forecasts are produced throughout the year and reviewed and queried appropriately at organisation level.</p> <p>Financial plans are approved at organisation level and submitted to the parent department.</p>	<p>Financial planning covers all the areas of the business and is fully linked to the organisation's longer term objectives and its remit under the programme for government. These financial plans fully support and align with the strategic plans submitted to the parent department.</p> <p>Some of the plans, at a more strategic level, may cover 5 to 10 years ahead. The need for such planning will be dependent on the individual organisation's circumstances.</p> <p>Operational plans will be fully prepared using performance based budgeting.¹</p> <p>The financial planning process (both operational and strategic) includes modelling of different scenarios including identification and scoping of expected financial pressures and profiling of costs and cash flow over time.</p> <p>Financial plans are approved at organisation level and submitted to the parent department. This plan is then reviewed to ensure consistency and efficiencies, and to identify any overlaps in service provision/planned expenditure. Any issues identified are discussed with the operational areas impacted, agreement is reached and the financial plans of both the organisation and the parent department are updated to reflect the agreed solution.</p>

Note: 1 Further information on performance based budgeting is provided in Appendix C.

Theme — Financial information for decision making

Question 8 What understanding does the organisation have of its expenditure and cost drivers, and those of other operators in the sector in order to understand the impact of costs on its programmes?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>Managers know many of the costs of their activities but they are unaware of the drivers of cost and the implication of changes in cost on their activities, programmes and outcomes.</p> <p>Additionally there is no understanding of the impact of operational changes on costs.</p> <p>New delivery models for services are not routinely considered and the costs of alternative delivery models have not been established.</p>	<p>Managers know many of the costs of their activities. They are aware of some of the drivers of cost, particularly in the short-term, and some of the implications of changes in cost on their activities, programmes and outcomes.</p> <p>There is little understanding of the impact of operational changes on costs.</p> <p>Alternative delivery models are considered but are not costed.</p> <p>No benchmarking of costs with comparable organisations is performed which limits the organisation's ability to understand the cost drivers.</p> <p>Generally accepted costing techniques are utilised but there is no uniformity of application across the organisation.</p>	<p>Senior managers have an understanding of the drivers of costs of their business. Operational managers know the costs of their outputs and activities. Costs are updated annually and summarised information is presented to the board/executive team. The board/executive team are alerted to in year changes in costs and the implications of any changes on their ability to deliver programmes and outcomes. The organisation flags any material changes to its parent department.</p> <p>Managers understand the different ways in which costs may be measured, and some benchmarking is performed in areas where comparisons are readily available.</p> <p>Generally accepted cost estimation techniques are utilised and there is a degree of uniformity of application across the organisation. This uniformity of application is not reviewed.</p>	<p>Managers and staff can demonstrate their understanding of costs, the different methods for cost measurement, and the ways in which costs can change when discussing business plans. They are aware of the costs of outcomes and programmes and the impact of changes on those costs.</p> <p>Alternative delivery models have been adopted where operationally and financially beneficial. The models are regularly reviewed and alternative models continue to be considered periodically.</p> <p>Cost analyses are regularly updated in year and summarised information is used by the board. The organisation routinely updates its parent department on cost changes which will impact on financial planning and delivery of agreed financial plans. Information summaries provided to the board and executive team contain information on the organisation's activities and benchmarks.</p> <p>There is an effort to collate information to benchmark pricing where readily available but there is little effort to look for benchmarks outside of the direct comparator group or in the private sector.</p>	<p>Managers and staff have a full understanding of different costing methods. They draw on their understanding of the costs of long-term outcomes and programmes when discussing business plans. They are aware when costs change and understand the reasons for variations. The board routinely uses summarised current and forecast cost analysis. They understand which costs can be influenced and controlled.</p> <p>Delivery models are routinely re-evaluated and changed to deliver the best service for resource allocations.</p> <p>The summaries contain information on comparable organisations' activities, not just those of their own organisation. The organisation is proactive in seeking benchmarks outside of their sector in order to drive continuous improvement. These summaries are provided to the organisation's parent department as part of their regular update submission.</p> <p>Cost estimation techniques are continually reviewed in terms of actual versus estimate comparisons to improve techniques.</p>

Question 9 What understanding does the organisation have of its income streams and the way in which it sets prices, as well as the income streams and pricing mechanisms of its partners?

<p>Level 1: Inadequate</p>	<p>Level 2: Basic</p>	<p>Level 3: Adequate</p>	<p>Level 4: Professional</p>	<p>Level 5: Leading edge</p>
<p>The organisation understands how most of its income or revenues are derived but are unaware of how streams can be affected by changing customer or funder behaviour. There is no appreciation of the potential impact of activities of other organisations on customer behaviour.</p>	<p>Managers understand how income or revenues are derived and have an appreciation that their income/revenue streams are likely to be affected by changing customer or funder behaviour or the activities of other organisations. However, the organisation has no information on how these factors affect income streams in practice and makes no effort to understand the impact.</p>	<p>Managers understand how income and revenues are derived and appreciate how changes in key factors, such as customer behaviour and funding streams, might affect their income streams.</p> <p>However, there is limited management information regarding how these factors affect income streams in practice.</p> <p>The organisation monitors the relationship between costs and income to check that all direct costs are covered as a minimum where appropriate.</p>	<p>The organisation has a useful level of information regarding the key factors which impact on its revenue/income streams. It monitors the behaviour of customers, funders and competitors in order to forecast future streams and adjust service offerings or pricing structures.</p> <p>Managers understand the extent to which full costs are being recovered and the impact of changing demand volumes. They have an understanding of different methods for maximising their income streams where appropriate, for example debt recovery.</p>	<p>The organisation has a sophisticated level of intelligence on the factors which influence its income/revenue streams which enables it to make strategic decisions in pursuit of revenue and income optimisation where appropriate.</p> <p>The costing methodologies applied ensure that managers understand the costs being recovered and the contribution to sunk costs.</p> <p>Managers are proactive and innovative in managing demand for services and assessing ways of maximising the income they receive where appropriate, for example by providing new services or products.</p>

Question 10 How are investment appraisal and project management processes used to evaluate costs and benefits and to inform all key policy, operational and investment decisions?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>Projects are rarely subjected to investment appraisal. There is limited project planning or project management. There are few financial controls at project level or at programme level. There is a lack of accountability and monitoring of expenditure.</p> <p>Staff outside of the finance function have little understanding of financial appraisal or project management techniques.</p> <p>Investment programmes in the organisation are not aligned to the investment programmes of its parent department.</p> <p>Investment decisions are not planned.</p>	<p>A few major projects are subjected to rigorous investment appraisal when required by the Public Spending Code but very few projects have fully costed options to support the decision making process and the majority of plans are created retrospectively.</p> <p>The overall costs and benefits of programmes are not fully considered using documented cost/benefit analysis techniques.</p> <p>Significant projects may have project plans with risk management arrangements and timetables for delivery. However, the use of project plans is inconsistent and there is no aggregation of project plans at programme or organisational level.</p> <p>Staff outside finance have some understanding of financial appraisal and project management techniques, but regard them as an administrative process rather than a tool to help deliver projects to time, cost and planned level of quality.</p>	<p>The organisation has established clear standards for the preparation of business cases which are consistently applied irrespective of whether they are required under the Public Spending Code.</p> <p>The business case process is centrally managed with a standardised approach to financial management, including costed options, and cost assessments that are tracked throughout the organisation's programme life cycle.</p> <p>Business cases and project plans are submitted to the board/executive team for approval who consider the key factors and impact on the business in the short to medium term.</p> <p>The quality of the investment appraisals and project plans tends to vary between projects due to varying levels of staff expertise. This means that the executive management team/board will sometimes need to ask for further information in order to make key decisions.</p>	<p>The organisation has a rigorous approach for investment appraisal and project management. All plans are produced to an acceptable level of quality in compliance with the Public Spending Code irrespective of whether they are required under the code.</p> <p>The business case, programme and project management processes are meaningful and add value to the organisation.</p> <p>The organisation considers the impact of the programmes and projects on financial performance and financial statements over the medium term.</p> <p>All significant programmes and projects are reviewed by the board/executive team (or a delegated sub-committee) who consider the investment appraisal, risk management and project plan.</p> <p>The organisation gives consideration to the availability of funds and other resources when reviewing investment opportunities.</p> <p>It evaluates business cases and investment decisions using available information which may include cost models and sensitivity analysis. The organisation flexes programme life cycles to manage availability of funds, without incurring additional future costs.</p>	<p>The board considers the longer term impact of programmes and projects on the financial performance and financial statements. All projects are also routinely reviewed by a dedicated capital expenditure committee.</p> <p>Projects are considered by the board/executive team (or a delegated sub-committee) where appropriate. This includes consideration of an investment appraisal, risk management and project plan.</p> <p>The board prioritises investment opportunities effectively in relation to the availability of funds and other resources. It evaluates business cases and investment decisions by routinely using cost models and sensitivity analysis to assess the efficiency of projects.</p> <p>In line with new opportunities/challenges, the organisation periodically reassesses programme priorities and the organisation flexes programme life cycles to manage the availability of funds, without incurring additional future costs. Further programmes/projects may be re-assessed to accommodate new needs where feasible mid-project.</p>

<p>The Finance Function does not have an active involvement in the roll out of the project or the implementation phase after the decision to proceed with the project is made.</p>	<p>Processes are in place to ensure that projects are monitored in accordance with robust investment appraisal and risk management guidelines under the Public Spending Code.</p> <p>Staff use financial appraisal and project management techniques to help them deliver projects and programmes to time, cost and planned level of quality. A member of the Finance Team is an active member of the Project Management Group for each project.</p>	<p>Progress against plans is monitored and significant variations cause projects to be reappraised. Project priorities are also re-assessed in line with new opportunities/challenges that have come on stream.</p> <p>Project and programme financial controls are largely integrated with those of the organisation and the finance team play an active ongoing role in all project.</p> <p>All programmes/projects are reviewed on a continuous basis to ensure that they remain in line with organisational and strategies and objectives.</p>	<p>There is effective decision making, with consideration of financial evidence. Progress against plans is monitored and significant variances cause both programmes and projects to be reappraised; significant issues are anticipated in good time.</p> <p>The organisation operates a programme management and a programme assurance approach to ensure that all programmes are co-ordinated and aligned to the organisation's strategy and that the programme/project delivers the desired results.</p> <p>Project and programme specific financial controls are fully integrated with those of the organisation. The organisation routinely uses post project review to improve its processes.</p>
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Theme — Financial monitoring and forecasting

Question 11 What is the quality, accuracy and timeliness of the organisation's financial management and forecasting information, including information on income, expenditure, cash flow, and working capital?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>Budget setting processes are underdeveloped. The board, executive team and managers are unable to place reliance on the monitoring and forecasting. This may be due to the timing and/or quality of the information supplied. It is likely to be manually produced and may be difficult to reconcile.</p> <p>The monitoring information includes little or no forecasting of current information into the future and rather relies on past performance as an indicator of future performance.</p> <p>Operational management do not have an active role in setting budgets.</p>	<p>Budgets are finalised after the start of the financial year. Budgets are designed by the finance team within the organisation using cash based information.</p> <p>Financial monitoring information is not available to managers until four weeks after the period end meaning that it is often out of date. Some limited forecasting information is also made available.</p> <p>Monitoring information is not provided to the board/executive team until the second half of the financial year and contains little forecast information.</p> <p>The information provided does not provide operational management and senior management with the opportunity to re-evaluate their operations to begin operating in line with the agreed budget.</p>	<p>Budgets are set just before the start of the financial year.</p> <p>Financial monitoring and forecasting information becomes available to managers two weeks after the period end. It is timely enough to ensure that financial control can be exercised but the identification of key issues could be quicker.</p> <p>The first monitoring and forecasting return to the board takes place at the end of the first quarter and includes actual vs budget with comparatives along with commentary as regards the variances.</p> <p>The board take an increasing interest in financial information in the second half of the financial year.</p>	<p>Budgets are performance based and agreed at least a month before the start of the financial year and managers are fully aware of the levels of budget to expect. This budget is used as a basis for the rolling forecast for the organisation for the next five years.</p> <p>Operational managers have accrual based financial and performance information available to them which is very current.</p> <p>Financial monitoring and forecasting packs inclusive of integrated Income and Expenditure Statement, Balance Sheet and Cash Flow, are made available to the board and executive team within days after the period end and include accurate accruals based information and a set of financial statements to date.</p> <p>The board takes an active interest in the financial forecasts from month 1 onwards and the executive team regularly revise both the budget and projections as a result of activity during a given period.</p>	<p>Budgets are drafted on a performance basis prior to the estimates process and are approved one to two months before the start of the financial year as soon as the estimates process is finalised. Budgets are updated to reflect any significant events close to year end.</p> <p>Real time financial and performance information is available to managers via the appropriate financial management systems. The systems are engineered to provide relevant data at a sufficiently accurate level. The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'.</p> <p>Financial monitoring and forecasting packs are made available to the board/executive team four to seven working days after the period end and includes accruals based information, recognition of commitments and a set of financial statements with forecast outturn for the year ahead.</p>

Question 12 How are appropriate financial and non- financial indicators covered within the monitoring and forecasting reports such as operational reports, board reports, management accounts, external accounts and business plans?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>Few performance indicators exist. A very limited level of financial and operational performance information is produced. Financial and operational performance information are reported separately and as the formats are incompatible they cannot be easily reconciled. They are often reported at different times and use different metrics meaning that it is not possible to assess a single activity or output from both a financial and operational perspective</p> <p>The information is not aligned to the strategic objectives of the organisation.</p>	<p>Some financial and operational performance information is reported to management, however it is not integrated in a consolidated report to facilitate analysis.</p> <p>The executive team/board frequently need to review more than one report at the same time and perform their own reconciliation of the content in order to obtain an indication of financial and operational performance.</p> <p>Some performance measures exist, providing an indication of expected outcomes, outputs and inputs. However, their application is inconsistent across the organisation.</p> <p>The lack of co-ordination between financial and operational information means that it is time consuming and cumbersome for the board and senior management team to assess performance.</p> <p>Published information provides some measures of how the organisation is progressing towards achieving strategic objectives however this is incomplete and may not be prepared for all objectives.</p>	<p>Reports to management contain both financial management and operational performance information produced on consistent bases. Both management and the finance team agree this information prior to submission to the senior management team. This enables the senior management team and the board to review the performance of key areas from both a financial and operational performance perspective within the same report. The performance framework is structured around objectives and provides an overview of the whole organisation's performance. The organisation produces a mixture of financial and operational performance metrics to enable the review of performance. Some of these metrics need to be produced manually.</p> <p>Published financial information and operational performance information is linked to published organisational objectives.</p>	<p>A set of operational performance metrics for each segment of the organisation's business is aligned to the strategic objectives of the organisation and reported jointly with financial information. The organisation (with input from both management and finance) produces KPIs which contain both financial and operational elements, e.g., cost per unit of performance. The organisation has developed the performance system to enable the production of key metrics on a regular basis.</p> <p>Key operational performance and financial information is reported consistently in management accounts, external accounts and business plans and used to advise the next estimates and budgeting process. This material is linked to the published objectives.</p> <p>The performance framework is integrated within the organisation so that business unit, team and individual performance measures are connected to the corporate performance measurement framework.</p>	<p>A comprehensive set of integrated performance metrics for each segment of the organisation's business is aligned to the shared strategic objectives of the organisation.</p> <p>There is a focus on measures which demonstrate value for money, best outcome levels and public and customer satisfaction.</p> <p>There is real time reporting available to managers of the key operational performance and financial information.</p> <p>The key information is reported consistently in management accounts, external accounts and business plans. KPIs are used in real time to advise adjustments to budgets and spending patterns to ensure that the organisation is run efficiently. Financial information is reported against the published objectives.</p> <p>The organisation uses KPIs and other measures to benchmark itself against others in a bid to continually improve performance.</p>

Question 13 What is the quality of the financial management, operational performance management systems, including the transactional processing systems?

<p>Level 1: Inadequate</p>	<p>Level 2: Basic</p>	<p>Level 3: Adequate</p>	<p>Level 4: Professional</p>	<p>Level 5: Leading edge</p>
<p>IT systems are slow and may break down. The financial and operational performance systems are basic. Budget holders do not have direct access to these systems but must request information from the finance department. There are limited facilities to produce tailored information.</p> <p>Budget holders tend to use their own spreadsheets for budget monitoring in preference to the financial systems, leading to significant manual work and duplication of monitoring. There is a distinct lack of automated processes and most monitoring is paper based. No time or investment is made in maximising the system's current potential or developing its potential through new software and updates.</p>	<p>Budget holders need to liaise regularly with the finance team to access the information they require. The central finance team only post adjustments to the information at the year-end meaning that budget holders are unable to effectively use the management information systems available to them.</p> <p>No in year information is provided on accruals. Staff find it difficult to use the information produced as it requires substantial adjustment for meaningful use and staff place little reliance on it.</p> <p>Reports generated by the system are often manipulated in spreadsheets so that managers better understand the information.</p> <p>The organisation's different systems are not aligned and may produce contradictory internal monitoring information; the year end statutory accounts are difficult to reconcile to management information as adjustments are posted after the year end. Little investment is made in the finance system by management and it is not considered a priority.</p>	<p>Budget holders are able to access monitoring information online and in a format that allows them to forecast information easily.</p> <p>There is little need for budget managers to manipulate the monitoring information in their own spreadsheets but they do use them routinely for forecasting.</p> <p>While there are different sources of management information produced by various systems, the year end statutory accounts and management information can be reconciled and are synchronised during the financial year.</p> <p>Data entered into the systems are regularly validated.</p> <p>Financial management systems are a key consideration for senior management. The IT systems are generally reliable, and are tested regularly for efficiency and accuracy.</p>	<p>Budget holders and operational managers can access the reports and monitoring information easily and in real time. There is a clear and visible trail from the regular management accounts to the end of year financial statements and reconciliations are undertaken frequently. Managers are able to use the financial systems to produce accurate, timely forecasts.</p> <p>There are reliable IT systems that link across all primary financial statements, and which can be accessed remotely by managers. The systems are integrated to minimise duplication of information and maximise interface possibilities. Key data is validated independently on a regular basis.</p> <p>Maintenance of the financial management systems is considered crucial to the ongoing success of the Organisation. Full business continuity arrangements are in place.</p>	<p>Managers routinely use the financial systems to produce accurate, timely forecasts.</p> <p>Managers actively seek out new information from the finance team to manage their business efficiently which the system enables them to do.</p> <p>Systems are regularly reviewed to maintain quality and performance. Senior management encourage improvements in the systems available.</p> <p>Real time data are trusted and data are held in only one place within the systems, available to managers whenever needed.</p> <p>There is one data warehouse holding all primary financial data. Data entered into the data warehouse are from trusted sources and are assured as accurate and timely.</p>

Theme — Financial and performance reporting

Question 14 How open, clear and concise are reports of financial and performance information, and are they tailored to the needs of the user, both internal and external?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>The organisation has no awareness of the needs of the different users, both internal and external.</p> <p>Users find that the reports that they receive do not give them the information that they need. Reports contain confusing, incomplete or misleading information which may lead to poor decision making.</p> <p>External reports do not openly discuss the financial and operational performance. For example performance may be only reported against targets that have been met.</p>	<p>The organisation makes some attempt to tailor the reports to its perception of user needs.</p> <p>Reports are complete but users find reports difficult to understand, unless they are qualified/experienced finance professionals or experts.</p> <p>External reports openly report financial and operational performance information, but the presentation may be unclear and there is no significant commentary.</p> <p>Reports do not provide an accessible link between the financial information being provided and its operational impact or consequence.</p>	<p>Some effort has been made to tailor financial data for non-finance staff.</p> <p>There is a range of different reports produced to meet the requirements of different users such as the board, senior operational managers and budget managers. The reports are tailored to the needs of users. Internal users have been consulted for their views on the format, frequency and content of the report.</p> <p>External reports are fully compliant with mandatory reporting requirements, contain transparent information on both over and under performance, and include concise commentary to make the key messages clear to the non-professional reader.</p>	<p>The organisation has considered the needs of different internal and external users and has produced a suite of tailored reports. Reports have been tailored to the information needs of each user group as well as their financial expertise. The format, content, and language are regularly updated to align with best practice and changing internal and external information needs. Internal and external stakeholders are consulted about the information that they need and want to receive.</p> <p>The monthly reporting packs to senior management and the board contain key financial and performance data needed to understand the business, and allow readers to drill down to lower level data from the higher summary level. Report commentary is transparent and covers the key factors to inform decision making. Emerging risks and opportunities are highlighted and proposed action points are provided.</p> <p>External reports include all appropriate information presented in a way that is relevant and useful to external stakeholders. The level of information in reports is comprehensive, concise and relevant. Underperformance is openly recognised and the organisation outlines their plans for improvement.</p>	<p>A comprehensive suite of tailored reports is available for internal use. The level of detail cascades appropriately and it is easy to see how key reports reconcile. The systems enable additional drill down of reports and the creation of bespoke reports for specific needs. Internal and external stakeholders are regularly consulted about the type of information received, its presentation and its timing.</p> <p>The organisation routinely reviews the ongoing relevance of reports, removing redundant or unused information. The organisation ensures that the effort for report production is proportionate to levels of need and outcomes for report users.</p> <p>Senior management is committed to using published information to report performance as clearly and concisely as possible. They routinely look for ways to improve their reporting.</p> <p>External reports contain information tailored to users' needs which is developed in collaboration with key external groups and partners. The organisation provides external information on its performance throughout the year, in addition to the annual report.</p> <p>Commentary in reports to the board and senior management includes benchmarking information to provide context and highlights emerging risks and opportunities.</p> <p>External reports of financial statements are seen as best practice examples of financial and corporate reporting.</p>

Question 15 How timely are the reports that are presented to internal and external users?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
<p>Reports for internal managers are produced too late to be useful and as a consequence are disregarded by management.</p> <p>Draft financial statements, in the required format and accompanied by the required information, are not made available to the C&AG for audit until five months or more after the year end.</p>	<p>Internal reports are not produced until up to three to four weeks after the period end meaning that managers are not able to take action to mitigate the impact, for example, addressing increased expenditure on the budget.</p> <p>Draft financial statements, in the required format and accompanied by the required information, are not made available to the C&AG for audit until four months after the year end.</p>	<p>Internal reports are produced reasonably quickly after the period end, for example within two to three weeks for internal reports. This enables the running of the organisation but does not allow managers to be as responsive to issues and risks as would be preferable.</p> <p>Most significant issues tend to be identified in sufficient time so that they can be corrected either from an external reporting or a budgeting point of view.</p> <p>Draft financial statements, in the required format and accompanied by the required information, are made available to the C&AG for audit by the earlier of three months of year end or specified legislative or other requirement. Audited financial statements are made publicly available within three months of certification.</p>	<p>Reports are produced on a timely basis for internal managers (depending on the organisation's needs). The board receive information within days of period end. This enables the identification of issues and challenges in good time to enable remedial action to take place.</p> <p>Acceptable draft financial statements are made available to the C&AG for audit within two months of the year end and made publicly available within two months of certification.</p>	<p>Data and reports are produced in real time for decision makers as and when needed.</p> <p>Reports are produced within days of period end, and enable the board and senior management team to exercise financial scrutiny in more or less real time.</p> <p>Acceptable draft financial statements are made available to the C&AG for audit within six weeks of the year end and made publicly available within one month of certification.</p>