Comptroller and Auditor General
Special Report

Financial Management Maturity Model: A Good Practice Guide

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Report of the Comptroller and Auditor General

Financial Management Maturity Model: A Good Practice Guide

Effective financial management is important for all State bodies to achieve value for money, to support sound decision making, to facilitate accountability, to improve planning, to manage risks, and to devise and achieve strategies. A review of the capacity, or maturity, of financial management in any organisation is aided by the use of a framework or model against which to assess the practices of the organisation.

This report proposes a financial management maturity model for use as a mechanism to assist public sector bodies. As part of the model's validation, it has been applied to Enterprise Ireland.

I have prepared this report under the provisions of Section 11 of the Comptroller and Auditor General (Amendment) Act 1993. The draft report was sent to the Department of Public Expenditure and Reform, and Enterprise Ireland. Where appropriate, comments received from the Department and from Enterprise Ireland were incorporated in the final version of the report.

I am grateful for the assistance provided by the UK National Audit Office in developing the model.

I hereby submit my report for presentation to Dáil Éireann in accordance with Section 11 of the Act.

Seamus McCarthy
Comptroller and Auditor General

26 June 2018

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Summary

Summary

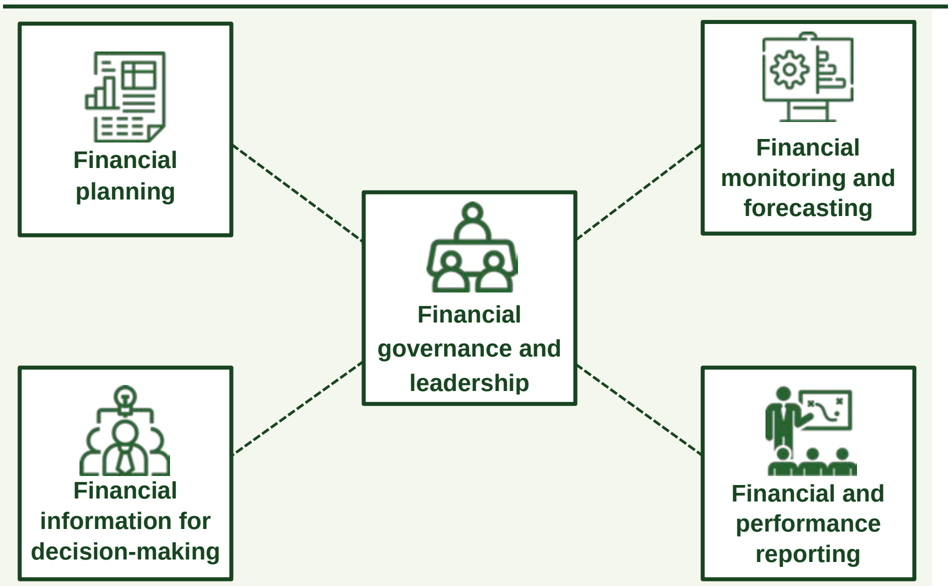
Financial management is the system by which the resources of an organisation are planned, directed, monitored and controlled to enable it to achieve its goals. Good financial management is essential for the effective running of an organisation.

The financial management maturity model

This report presents a model — the financial management maturity model — which can be used to assess and identify opportunities for improvement in financial management practices in public sector organisations.

The model describes practices and awareness of financial management and relates them to the outcomes organisations might expect. The model also provides a basis for assessing financial management practices by setting out 15 questions across the five key themes shown in the figure below.

Financial management maturity model — five key themes



Source: Office of the Comptroller and Auditor General

Five levels of maturity are identified as shown below. The appropriate maturity level for an organisation is best determined by those responsible for its governance. The benefits of operating at a higher maturity level must be balanced with the increased cost associated with moving to that level. However, it is not appropriate for a public sector organisation to be operating at Level 1 or 2.

Characteristics of organisation practice — five maturity levels

Level	Overview of practice
5	**Leading edge**: The organisation has in place financial management practices that are leading edge and allow it to actively anticipate both challenges and key opportunities, in order to optimise its performance.
4	**Professional**: 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.
3	**Adequate**: The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances and that enable it to develop, but will not be sufficient in challenging times.
2	**Basic**: 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.
1	**Inadequate**: 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.

Validation of the model

Enterprise Ireland completed a self assessment using the model. This was followed by a review by consultants appointed to validate the model. The self assessment together with instances of good practice and opportunities for improvement identified by the consultants are summarised in Chapter 3 (the report of the consultants is reproduced in Appendix C).

Enterprise Ireland considered that the model provided an effective framework to review its financial management.

Using the model

The model is primarily intended for use by organisations to self assess their financial management practices in order to identify opportunities for improvement. The model may also be used in future examinations and audits by the Office of the Comptroller and Auditor General.

An assessment of an organisation using the model should be conducted by a suitably qualified person who should apply professional judgement and knowledge of the organisation in conducting the assessment.

Having determined its desired level of maturity and assessed its current level, an organisation can use the model to identify any changes to its financial management practices that are necessary.

Financial Management Maturity Model:

A Good Practice Guide

1 Introduction

1.1 Financial management is the system by which the resources of an organisation are planned, directed, monitored and controlled to enable its business goals to be achieved.

1.2 Effective financial management is important for all State bodies to achieve value for money, to support sound decision making, to facilitate accountability, to improve planning, to manage risks, and to devise and achieve strategies.

1.3 A review of the capacity, or maturity, of financial management in any organisation is aided by the use of a framework or model against which to assess the practices of the organisation.

1.4 Frameworks for accounting and governance may result in a binary compliance approach. However, assessing financial management performance is more nuanced and qualitative. The objective of this examination was to develop a comprehensive model for application by all Irish non-commercial public bodies to assess financial management practices and to identify opportunities for improvement.

1.5 The Office engaged external consultants to lead the development of a financial management maturity model (the model) and to validate that model in an Irish public sector organisation.[1]

1.6 The development of a model for use in the Irish public sector was significantly informed by a model developed by the UK National Audit Office (NAO).[2] The NAO generously agreed to allow its model to be adapted as the basis for the development of a model for use in the Irish public sector. The NAO also provided further assistance and insight during the development of our model. This Office is grateful for the assistance provided by the NAO during this examination.

1.7 The application of the model was validated by applying it to an Irish public sector organisation — Enterprise Ireland. The validation process indicated that the adapted model is appropriate for use in the Irish public sector. However, the model will be reviewed after a period of application to Irish entities and will be amended, updated and enhanced as necessary.

1.8 The model and draft report were reviewed on a *pro bono* basis by Professor Patricia Barker, formerly of Dublin City University, who has extensive knowledge and experience of financial management in the public and private sector. Amendments were made to the model in light of her review.

1.9 The model is designed for use by appropriately qualified professionals as a framework to conduct an assessment — the model is not a check-list and is not a substitute for the application of the professional skills, experience and judgement of the assessor. The model should inform, but not limit, the practices reviewed during an assessment.

1 Mazars were chosen following a tender competition under an Office of Government Procurement framework.

2 https://www.nao.org.uk/wp-content/uploads/2013/02/financial_management_maturity_model.pdf

1.10 The model may be used as an audit tool in future examinations by this Office. Some areas covered by the model are already addressed in the financial audit programmes of the Office, but the model also provides a framework for analysis in further areas. In addition, sections of the model may be used to compare similar organisations in order to benchmark performance and identify good practice.

1.11 Chapter 2 sets out a high-level summary of the model, and the characteristics of good financial management practices. Chapter 3 summarises the findings of the validation of the model in Enterprise Ireland.

2 Model for assessing financial management maturity

2.1 The model is a framework under which financial management activities in Irish public sector organisations can be examined. The model is built around five key areas, or themes. Strong financial governance, a good ethical culture and effective leadership are at the heart of good financial management. For each theme, the model sets out a number of questions that address financial management practices and awareness in an organisation. The themes and questions are set out in Figure 2.1.

2.2 For each question, the model describes the practices associated with five levels of maturity. For some organisations, certain questions may not be relevant. Details of the practices associated with each level of maturity for each question are shown in the full model in Appendix A.

2.3 An organisation may display different levels of maturity within a theme or within the response to individual questions. The maturity level of the organisation should be considered as the level that is the ‘best fit’, rather than the minimum, maximum or an average level of maturity displayed.

2.4 The model identifies five levels of maturity, with Level 1 being the lowest level of maturity and Level 5 being the highest (see Figure 2.2). Level 1 and 2 are not appropriate for public sector organisations. Of the other levels, the specific circumstances of the organisation dictate which level is appropriate.

Figure 2.1 Financial management maturity model

Themes	*Key questions*
Financial governance and leadership	1. What emphasis do the board and executive team place on their own responsibility and on a culture of collective responsibility for financial matters? 2. How do the systems of internal control, governance arrangements and risk management processes operate? 3. What financial management capability have the board (including the audit committee) and executive team, the finance department and staff working outside finance? 4. What training and continuous professional development in financial management is provided to staff both within and outside the finance department?
Financial planning	5. How is financial planning and monitoring integrated with the organisation's strategic and corporate planning processes? 6. How robust and streamlined are the systems for financial planning? 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?
Financial information for decision-making	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? 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? 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?
Financial monitoring and forecasting	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? 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? 13. What is the quality of the financial management and operational performance management systems, including the transactional processing systems?
Financial and performance reporting	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? 15. How timely are the reports that are presented to internal and external users?

Source: Office of the Comptroller and Auditor General

Figure 2.2 Financial management practices and outcomes, by maturity level[a]

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
Inadequate for all organisations	***Inadequate for almost all organisations***	***May be adequate for some organisations***	***Appropriate for many organisations***	***Highly sophisticated — few organisations need to operate at this level.***
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.	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.	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.	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.	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.
As a result ▪ budgets are overspent ▪ projects overrun in cost and time ▪ expected benefits are often not delivered.	**As a result** ▪ there is an awareness of issues with current financial management processes ▪ project overspend is identified too late to address the underlying causes.	**As a result** ▪ the organisation manages well in a stable environment, but is challenged by change ▪ programmes are not always delivered to time, cost and quality targets.	**As a result** ▪ the organisation responds to challenge in good time ▪ most programmes are delivered on time and to expected cost and quality levels.	**As a result** ▪ the organisation anticipates and responds to challenges ▪ it delivers programmes to time, cost and planned level of quality ▪ it seeks efficiencies and improves services while minimising cost increases.

Source: Office of the Comptroller and Auditor General

Note: a Appendix A provides an overview of practices, awareness and expected outcomes for each level of maturity.

2.5 The appropriate maturity level for an organisation is best determined by those responsible for governance. It is important to balance the benefits of operating at a higher level of maturity with the increased cost that will involve. Operating at the leading edge (level 5) requires systems and processes that may be costly to implement, which would be inefficient for a simpler organisation. An organisation may aim to be at level 5 for some areas, but be satisfied with being at a lower level for other areas. An overview of the practices, awareness and expected outcomes that characterise each maturity level is shown in Appendix A.

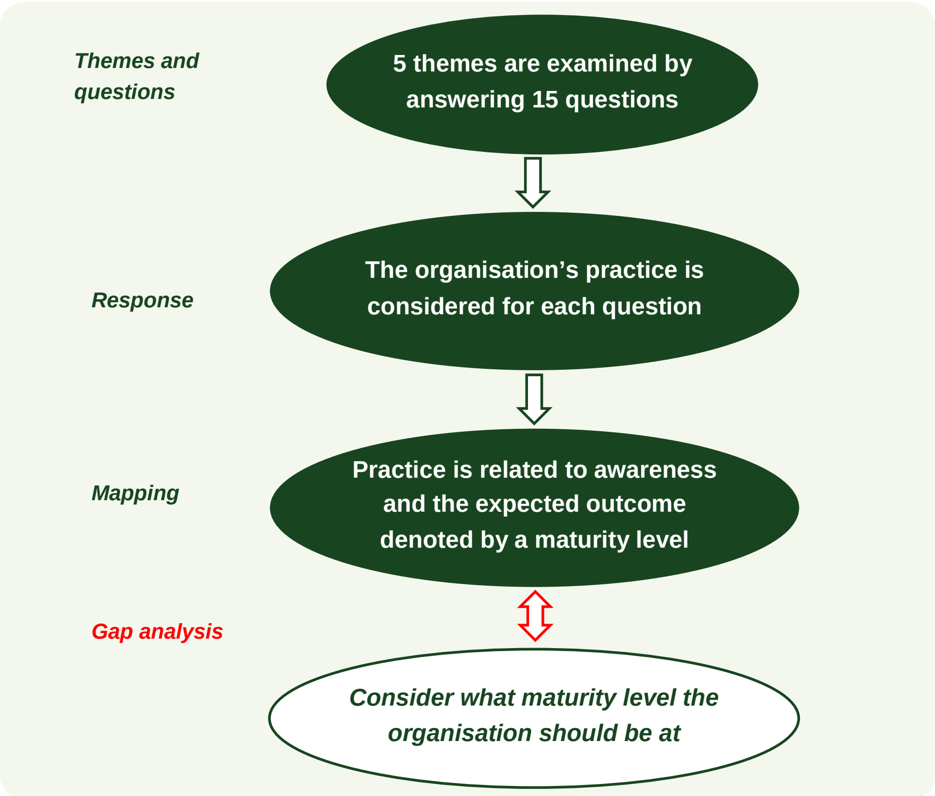
2.6 By considering the current maturity level and the level of maturity it aims to achieve, an organisation can use the model to identify specific financial management practices that could be improved.

Using the model

2.7 The model was developed to be relevant for the widest possible range of public sector organisations. The wording of text in the model addresses a non-commercial semi-State organisation, so there are many references to the actions of the board and the executive team of the company. However, the model can be easily adapted to assess the financial management maturity of a department or a body in the health or education sector. Depending on the organisation the model is being applied to, some tailoring of questions may be required and some questions may not be applicable.

2.8 The key steps in applying the model are shown below in Figure 2.3. By considering the practices necessary to achieve the desired level of maturity, an organisation can identify the changes to current practice that are necessary.

Figure 2.3 Overview of the model



Source: Office of the Comptroller and Auditor General

Assessing the maturity level

2.9 An assessment of financial management maturity should be conducted by a suitably qualified professional. Professional judgement and knowledge of the organisation must be used by the assessor. The assessment should be conducted using the model as guidance rather than the basis of a tick-box exercise, and the assessor must consider relevant factors that are not explicitly discussed in the model.

2.10 Key considerations for the assessor of a public body's financial management include

- the size of the entity and the complexity of operations
- the culture of the entity including the questioning of management
- the number, qualification and experience of finance staff, and the extent of reliance on the Chief Financial Officer
- the financial decision choices available to the entity
- the extent of financial risk exposure
- the external environment the entity operates in
- the extent of outsourcing
- how the relationship with the parent department is managed.

2.11 While carrying out an assessment of an organisation, the assessor must also be mindful of the issues which have arisen during financial audits. Recurrent examples include procurement, tax compliance, and the annual process employed by the board before it approves the statement on internal controls.

2.12 The model provides an overview of the practices associated with each level of maturity (see Figure 2.2). The conclusion of the assessor for each question should be guided principally by these overviews, rather than the more detailed guidance provided in the model.

Comments by the Department of Public Expenditure and Reform

2.13 The Department of Public Expenditure and Reform stated that efficient, effective, transparent and accountable financial management benefits all stakeholders and the model presents an opportunity for public sector bodies to develop an approach to assess their financial management practices and capabilities and to promote continuous improvement using a standardised framework. The model will enable public sector organisations to continually improve their financial management in a standard, evidence-based manner, and will enhance financial governance across public sector organisations and provide assurance to Accounting Officers regarding the level of financial maturity of bodies under their aegis.

3 Application of the financial management maturity model

3.1 The draft financial management maturity model was applied on a pilot basis to one selected public sector body to validate the model for use in the Irish public sector generally and to identify any gaps or other required amendments.

3.2 In selecting a public body for the pilot, the aim was to identify a body of significant scale in terms of expenditure and staff numbers, and which conducts a variety of financial activities.

3.3 Enterprise Ireland (EI) was identified as suitable for the validation process. EI is a semi-State organisation with responsibility for the development of Irish enterprises in world markets. Its total income in 2016 was €337 million, of which €285 million was provided from Government departments by way of grants or other funding. EI employed nearly 600 staff in 2016.[1]

3.4 Most EI expenditure is on financial support to industry (€198 million in 2016), such as funding supports, advice on exporting and developing competitiveness, and incentives and assistance with research and development. In 2016, a further €89 million was invested in company shares, seed and venture funds, and concessionary loans. Investments are capitalised in the EI financial satements. Further details on EI, including its focus and organisational structure is shown in the consultant's report in Appendix B.

Outcome of the validation process

3.5 EI was requested to complete the self-assessment in advance of the review by the consultants. The consultants' review was high-level and focussed on operational financial management activities. The engagement approach was to identify areas of strength and areas for potential improvement for each of the 15 questions. The review was not an audit and an allocation of a maturity level to EI was not an objective of the engagement. No amendments were considered necessary to the model following its application to EI.

3.6 At the end of the validation process, EI's view is that its financial management maturity is at the appropriate level for each of the questions in the report. EI stated that it is committed to the continuous development of its financial management framework to ensure that it adapts to changes in its internal and external environments and provides the required levels of risk management.

3.7 EI stated that the model provides an effective framework under which to review financial management maturity and it should be of benefit to all relevant stakeholders such as management and boards. EI suggested that, in the interests of efficiency, an organisation's existing internal audit function could be used to conduct reviews.

3.8 This chapter sets out, theme-by-theme, EI's self-assessment using the model, and the key good practices and opportunities for improvement identified by the consultants. The consultants' report is shown in Appendix B.

1 EI had 576 whole-time equivalent staff excluding short term overseas posts.

Financial governance and leadership

Financial governance and leadership is concerned with the emphasis on financial management at board and senior executive level, the operation of internal controls, governance arrangements and risk management, and the financial management capabilities and training provided in the organisation.

Key questions	Responsible individuals in EI	EI self-assessment: Level	EI self-assessment: Rationale
1 What emphasis do the board and executive team place on their own responsibility and on a culture of collective responsibility for financial matters?	CEO, Chairman of the Board	Level 4	The executive team engage with the Board to agree a Strategic Plan which is translated into annual Corporate Plans. Progress on corporate plans is reported to the Board. The Board and Executive Committee are circulated with Monthly Financial reports that compare financial performance against budget and, in addition, receive a monthly update from the Finance Manager.
2 How do the systems of internal control, governance arrangements and risk management processes operate?	Head of Internal Audit, Chief Risk Officer	Level 4	A strong documented system of internal financial controls is in place. SWiFT 3000 certification for corporate governance has been attained. Internal Audit carry out an annual audit of the systems of internal financial controls and the results are very positive (either nil or procedural findings). Internal Audit has a three year rolling work programme agreed by the Audit Committee. The Risk Register is aligned with the corporate risks and risk appetite of the organisation and mitigating actions are put in place.
3 What financial management capability have the board (including the audit committee) and executive team, the finance department and staff working outside finance?	Chairman, Finance Manager, HR manager	Level 5	There is good representation of financial skills and expertise in composition of Board and Audit Committee including a number of qualified accountants (both the Chairman of the Board and Audit Committee are qualified accountants). Roles requiring financial expertise (e.g. finance, equity, commercial evaluation) are appropriately resourced. The Internal Audit function is resourced by a specialist third party provider.
4 What training and continuous professional development in financial management is provided to staff both within and outside the finance department?	HR Manager, Company Secretary	Level 4	Continuous professional development needs are identified and encouraged through the performance development process for all staff. Competency frameworks are in place for all roles. Business qualification courses are funded when linked to the staff member's role. Finance for non accountants courses are run by external trainers as needed. Financial management is part of Board induction programme and new Board members are briefed on the financial aspects of the organisation as part of this induction process.

Consultants' assessment:

Instances of good practice include:

- the Board and Executive Committee receive tailored monthly financial packs
- the Executive Committee remit shows a focus on operational and strategic financial management
- the Audit Committee is chaired by a non-executive director who is an experienced accountant
- financial management training is provided to new staff; additional training needs are identified as part of the performance management process.

Opportunities for improvement include:

- potential earlier finalisation of the service level agreement between EI and its parent department
- appraisal of financial management when reviewing performance of all budget holders
- defining a policy on the use of financial models.

Financial planning

This theme is concerned with the integration of financial planning processes, how streamlined those processes are and whether they provide the support required by the organisation.

	Key questions	Responsible individuals in EI	EI self-assessment	
			Level	Rationale
5	**How is financial planning and monitoring integrated with the organisation's strategic and corporate planning processes?**	Finance Manager, Policy Manager, Budget Managers	Level 4	Financial planning informs the estimates process. Financial resources are aligned with strategic objectives and agreed with the Department of Business, Enterprise and Innovation. Monthly financial reports review budget against actual performance and are circulated to the Finance and Operations Committee, Executive Committee and the Board. Budgets and forecasts are reviewed and revised twice yearly.
6	**How robust and streamlined are the systems for financial planning?**	Finance Manager, Budget Managers	Level 4	Financial planning is aligned with existing commitments and available resources. Financial resources are aligned with strategic objectives. A bespoke online budgeting system is in place. A streamlined process in place. Budgets are compiled by finance staff, given available resources, in consultation with budget managers.
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?**	Policy Manager, Finance Manager, CFO	Level 4	Financial planning covers all activities and areas of the business. Funding for new initiatives or activities is determined by existing commitments and available resources. Priority given to strategic objectives. New investments and grant programmes approval and monitoring controls in place.

Consultants' assessment:

Instances of good practice include:	▪ integration of financial planning and monitoring with the organisation's strategic and corporate planning process ▪ financial planning and budgeting processes that involve budget holders, the finance team, the Executive Committee, the Finance and Operations Committee, and the Board ▪ the use of performance-based budgeting as the underlying premise of the budgeting process (further details on performance based budgeting are provided in Appendix C).
Opportunities for improvement include:	▪ high-level quantification of resources required to deliver strategic objectives over the lifetime of the strategy, to the degree that this is practical ▪ appraisal of financial management when reviewing the performance of all budget holders.

Financial information for decision making

This theme considers the information available to support decisions including the understanding the organisation has of its income and expenditure, and the processes used for appraising and managing investment decisions.

	Key questions	Responsible individuals in EI	EI self-assessment	
			Level	Rationale
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?**	Finance Manager, Procurement Manager	Level 4	Budget managers and the Board understand cost drivers for client supports and for operational activity. Benchmarks for client support costs are not readily available however, value for money is calculated at time of investment. Procurement rules (designed to achieve best value for money) are adhered to for operational costs. Operational costs are grouped into categories that allow the agency to take a strategic view of procurement and facilitates going to tender for the most economically advantageous supplier.
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?**	Equity Manager, Growth Capital Manager	Level 4	The Executive, Board, Finance function and Investment services understand the sources of income and the importance of generating and collecting own resource income.
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?**	Manager Commercial Evaluation	Level 4	Documented commercial assessment guidelines are in place. A commercial evaluation assessment is carried out on all projects that are seeking funding above €150,000 prior to submission to decision making committees. An economic appraisal model is used for all grant and equity supports. In addition, a minimum value for money threshold is required for all financial supports.

Consultants' assessment:

Instances of good practice include:	▪ requests for funding must present the business case to the relevant sub-committee ▪ a reallocation of budgets during the year to ensure they are aligned to current business needs.

Financial monitoring and forecasting

The financial monitoring and forecasting theme considers the quality, accuracy and timeliness of financial management and forecasting information, the systems used to produce that information and the use of performance indicators.

	Key questions	*Responsible individuals in EI*	*EI self-assessment*	
			Level	*Rationale*
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?**	Finance Manager	Level 5	A budget is set and approved by the Board at start of year after the estimates process, and reviewed and adjusted twice during the year. Financial (budget and actual) reports are available to budget managers online at all times. Tailored financial reports available to Board and various committees within 7 working days of period end.
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?**	Policy Manager, Finance Manager	Level 4	Board and the Department of Business, Enterprise and Innovation receive financial reports and key metrics or key performance indicators monthly.
13	**What is the quality of the financial management, operational performance management systems, including the transactional processing systems?**	Business Process Improvement and IT Manager, Finance Manager	Level 4	Budget managers can access real time financial reports through the online budgeting and reporting system. Staff working in the Finance function, Grants Administration and Investment services have appropriate access to Oracle Financials, In-house Grants and Investment systems. The financial systems are integrated. There are full business continuity arrangements are in place.

Consultants' assessment:

Instances of good practice include:	▪ monthly financial packs provided to the Board, Executive Committee and the Finance and Operations Committee which are accompanied by a commentary to facilitate comparison with prior periods and against budget, and highlight issues that may impact future financial performance ▪ financial systems updating twice daily, allowing budget holders to access information on their cost centres and allowing the finance department to tailor reports for individual managers ▪ performance against key performance indicators reported to the Board on a monthly basis to facilitate the Board's understanding of progress against the operational targets.

Financial and performance reporting

This theme considers the financial management information made available internally and externally and the extent of efforts to ensure that the information meets stakeholders' needs.

	Key questions	*Responsible individuals in EI*	*EI self-assessed level*	*EI rationale for self-assessed level*
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?**	Finance Manager	Level 5	The level of detail in monthly financial reports is cascaded appropriately depending on the user (e.g. Board, Executive Committee, etc.). Authorised users can access individual tailored and standard financial reports through the Budgeting and Reporting system on a 24/7 basis and can drill to transactional level by double clicking on a number on the report.
15	**How timely are the reports that are presented to internal and external users?**	Finance Manager	Level 4	Reports can be available within 3 days following the period end. The external financial statements for audit by the C&AG are available within 3 months of year end.

Consultants' assessment:

Instances of good practice include:	▪ monthly financial packs provided to the Board and management tailored to the needs of each group and supported by presentations made by the finance team ▪ audited annual financial statements prepared and published on a timely basis as part of the EI annual report.

Appendices

Appendix A

Financial Management Maturity Model

Comptroller and Auditor General

Financial Management Maturity Model

June 2018

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

		Practice	Awareness	Expected outcome
Leading edge	5	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.	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.	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.
Professional	4	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.	The organisation continually reviews its financial management processes and makes improvements to build upon and develop the current methods.	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.
Adequate	3	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.	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.	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.
Basic	2	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.	The organisation has some awareness that it needs to improve its financial management but does not actively do so. Improvements are rarely made.	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.
Inadequate	1	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.	The organisation has little awareness of the need to improve financial management and makes very little effort to make changes.	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.

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
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.	**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.**	**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.**	**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.**	**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.**
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.	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. 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.	The board and executive team act collectively by discussing performance as a team, across individual spheres of responsibility. Financial information is received with a frequency appropriate to the organisation's needs. 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.	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. 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.	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. The board and executive team receive financial information with an appropriate frequency. They also request and review bespoke pieces of financial analysis as necessary. The board examines the link between investment, costs and service delivery. 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.

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
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. A significant number of staff do not follow the policies and procedures that are in place and little enforcement occurs. 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.	The system of internal control is basic with some policies and procedures in place. 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. 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. 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.	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. 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.	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. 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. 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.	A highly effective system of internal control is in place. 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. Feedback is sought routinely so as to update and improve systems. Challenge to the processes is welcomed to introduce improvements. 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. 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.

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
There is no financial expertise in the board and executive team. The finance department is significantly understaffed or consists of a significant number of unqualified or inexperienced staff. Operational managers outside of finance have little or no understanding of financial management.	There is little financial expertise within the board and executive team. The senior executive responsible for finance may not necessarily attend the board meetings. The audit committee does not have appropriately experienced non-executive directors. The finance department is somewhat understaffed or the majority of staff are unqualified or inexperienced. 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.	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. The senior executive responsible for finance is professionally qualified and attends board meetings as required A non-executive director chairs the audit committee which has sufficiently experienced non-executive directors. The majority of finance staff are qualified or sufficiently experienced. The finance team is well established and adequately staffed 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. Financial models are used for financial management purposes by staff members. Staff are capable of maintaining and updating the models.	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. 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. Most staff within the finance team have qualifications/ experience appropriate to their role and grade, with only a few exceptions. 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.	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. The board, executive team and staff at all levels maintain and demonstrate the financial management expertise they need for their roles. External advice on improving the quality of financial management within the organisation is sought routinely as the quality of financial management is reviewed periodically. 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. Operational managers are appraised against appropriate personal objectives for financial management. 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.

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
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.	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. Financial management is covered at a high level in board induction.	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. Financial management is fully included in board induction training. Board members can competently critique the financial management undertaken by Management staff.	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. 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. Financial management is considered a core area in board induction training.	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. 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. Management regularly make submissions into this programme and are proactive in improving financial management techniques in the organisation. 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.

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
The strategic, corporate and financial planning processes are not co-ordinated. The organisation engages in the annual estimates process to secure public sector funding from their parent department for the next financial year. Plans are prepared just in time for this process. 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.	There is a basic level of alignment between the strategic, corporate and financial planning processes within the organisation. 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. The plans cover the next financial year and are therefore not aligned with medium to long term strategy. 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. 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.	There is some integration of financial planning processes for the most strategically sensitive areas of the business. A strategic plan is in place supported by a basic financial model which can be automatically updated for key changes during the year. 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. There is no active consultation to seek sectoral views.	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. 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. 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.	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. Financial and operational plans are fully aligned to the strategy at all levels and submitted to their parent department for approval when required. 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. 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. Planning processes include active co-ordination with external stakeholders, in order to co-ordinate effort, remove duplication and deliver economies. There is clear integration between strategic planning, operational/business planning, and financial planning and risk management activities.

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

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
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. 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. 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.	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. 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. 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.	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. 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. 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. 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.	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. 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. Staff are incentivised to budget through challenges made to budget requests, and to declare surpluses or areas for efficiency improvements. 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. The organisation reviews its processes every three to five years and uses feedback to improve them. Non-value adding stages in the planning process have been stripped out.	Sensitivity analysis and scenario planning is performed for all significant areas which may impact on short and long-term plans for the organisation. 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. 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. Operational managers routinely scrutinise budgets, declare surpluses and suggest areas for efficiency improvement. Staff are encouraged to engage in financial prudence. Objectives for financial planning and monitoring are built into operational managers' objectives. 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.

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
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.	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. There are some processes in place for investment management but organisational investment priorities are not established.	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] There are established standards for the investment management process. These standards are followed and failure to provide sufficient information is identified during the process. 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.	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. 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. Income and expenditure, balance sheet, cash flow and investment forecasts are produced throughout the year and reviewed and queried appropriately at organisation level. Financial plans are approved at organisation level and submitted to the parent department.	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. 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. Operational plans will be fully prepared using performance based budgeting.[1] 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. 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.

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
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. Additionally there is no understanding of the impact of operational changes on costs. New delivery models for services are not routinely considered and the costs of alternative delivery models have not been established.	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. There is little understanding of the impact of operational changes on costs. Alternative delivery models are considered but are not costed. No benchmarking of costs with comparable organisations is performed which limits the organisation's ability to understand the cost drivers. Generally accepted costing techniques are utilised but there is no uniformity of application across the organisation.	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. Managers understand the different ways in which costs may be measured, and some benchmarking is performed in areas where comparisons are readily available. 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.	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. Alternative delivery models have been adopted where operationally and financially beneficial. The models are regularly reviewed and alternative models continue to be considered periodically. 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. 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.	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. Delivery models are routinely re-evaluated and changed to deliver the best service for resource allocations. 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. Cost estimation techniques are continually reviewed in terms of actual versus estimate comparisons to improve techniques.

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?

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
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.	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.	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. However, there is limited management information regarding how these factors affect income streams in practice. The organisation monitors the relationship between costs and income to check that all direct costs are covered as a minimum where appropriate.	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. 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.	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. The costing methodologies applied ensure that managers understand the costs being recovered and the contribution to sunk costs. 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.

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
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. Staff outside of the finance function have little understanding of financial appraisal or project management techniques. Investment programmes in the organisation are not aligned to the investment programmes of its parent department. Investment decisions are not planned.	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. The overall costs and benefits of programmes are not fully considered using documented cost/benefit analysis techniques. 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. 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.	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. 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. 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. 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.	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. The business case, programme and project management processes are meaningful and add value to the organisation. The organisation considers the impact of the programmes and projects on financial performance and financial statements over the medium term. 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. The organisation gives consideration to the availability of funds and other resources when reviewing investment opportunities. 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.	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. 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. 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. 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.

	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.	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. 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.	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. 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. All programmes/projects are reviewed on a continuous basis to ensure that they remain in line with organisational and strategies and objectives.	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. 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. 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.

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
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. 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. Operational management do not have an active role in setting budgets.	Budgets are finalised after the start of the financial year. Budgets are designed by the finance team within the organisation using cash based information. 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. Monitoring information is not provided to the board/executive team until the second half of the financial year and contains little forecast information. 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.	Budgets are set just before the start of the financial year. 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. 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. The board take an increasing interest in financial information in the second half of the financial year.	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. Operational managers have accrual based financial and performance information available to them which is very current. 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. 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.	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. 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'. 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.

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
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 The information is not aligned to the strategic objectives of the organisation.	Some financial and operational performance information is reported to management, however it is not integrated in a consolidated report to facilitate analysis. 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. Some performance measures exist, providing an indication of expected outcomes, outputs and inputs. However, their application is inconsistent across the organisation. 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. 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.	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. Published financial information and operational performance information is linked to published organisational objectives.	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. 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. 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.	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. There is a focus on measures which demonstrate value for money, best outcome levels and public and customer satisfaction. There is real time reporting available to managers of the key operational performance and financial information. 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. The organisation uses KPIs and other measures to benchmark itself against others in a bid to continually improve performance.

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

Level 1: Inadequate	Level 2: Basic	Level 3: Adequate	Level 4: Professional	Level 5: Leading edge
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. 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.	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. 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. Reports generated by the system are often manipulated in spreadsheets so that managers better understand the information. 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.	Budget holders are able to access monitoring information online and in a format that allows them to forecast information easily. There is little need for budget managers to manipulate the monitoring information in their own spreadsheets but they do use them routinely for forecasting. 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. Data entered into the systems are regularly validated. Financial management systems are a key consideration for senior management. The IT systems are generally reliable, and are tested regularly for efficiency and accuracy.	Budgets 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. 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. Maintenance of the financial management systems is considered crucial to the ongoing success of the Organisation. Full business continuity arrangements are in place.	Managers routinely use the financial systems to produce accurate, timely forecasts. Managers actively seek out new information from the finance team to manage their business efficiently which the system enables them to do. Systems are regularly reviewed to maintain quality and performance. Senior management encourage improvements in the systems available. Real time data are trusted and data are held in only one place within the systems, available to managers whenever needed. 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.

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
The organisation has no awareness of the needs of the different users, both internal and external. 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. External reports do not openly discuss the financial and operational performance. For example performance may be only reported against targets that have been met.	The organisation makes some attempt to tailor the reports to its perception of user needs. Reports are complete but users find reports difficult to understand, unless they are qualified/experienced finance professionals or experts. External reports openly report financial and operational performance information, but the presentation may be unclear and there is no significant commentary. Reports do not provide an accessible link between the financial information being provided and its operational impact or consequence.	Some effort has been made to tailor financial data for non-finance staff. 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. 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.	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. 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. 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.	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. 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. 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. 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. Commentary in reports to the board and senior management includes benchmarking information to provide context and highlights emerging risks and opportunities. External reports of financial statements are seen as best practice examples of financial and corporate reporting.

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
Reports for internal managers are produced too late to be useful and as a consequence are disregarded by management. 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.	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. 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.	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. 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. 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.	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. 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.	Data and reports are produced in real time for decision makers as and when needed. 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. 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.

Appendix B

Consultants' report on the validation of the Financial Management Maturity Model in Enterprise Ireland

ENTERPRISE IRELAND

A Review of Financial Management in Enterprise Ireland

March 2017

MAZARS

Contents

1. EXECUTIVE SUMMARY

1.1 SUMMARY OBJECTIVES

This report summarises the results of our review of financial management within Enterprise Ireland ("EI"). This review was carried out by Mazars at the request of the Office of the Comptroller and Auditor General ("OCAG") and was undertaken as part of a wider engagement between Mazars and the OCAG to develop and refine a Financial Management Maturity Model ("FMMM") for use within the Irish Public Sector.

The purpose of the review in EI was to conduct an independent review of financial management in EI with the objective of validating the contents of the draft FMMM and supporting further discussion with the OCAG regarding the OCAG's approach to carrying out reviews of financial management. To deliver this requirement Mazars undertook the following work:

- Developed a FMMM self-assessment questionnaire and provided guidance to EI on completing the self-assessment
- Reviewed documentation received from EI and OCAG
- Analysed the results of the self-assessment questionnaire completed by EI
- Attended meetings with the EI Finance Manager, Finance Team Leader, the Secretary to the Board and members of the EI Management Team
- Developed a draft report recording the results of the review of financial management in EI

1.2 REPORT STRUCTURE

This report is structured as follows;

- Section one details the executive summary
- Section two outlines the background and approach to the review
- Section three summarises our observations in relation to the results of the review. We have reported areas of positive performance and areas where opportunity for improvement exist. These observations are grouped under the following themes:

    1. Financial Governance and Leadership
    2. Financial Planning
    3. Finance for Decision Making
    4. Financial Monitoring and Forecasting
    5. Financial and Performance Reporting

1.3 SUMMARY AREAS FOR POTENTIAL IMPROVEMENT

Overall, we noted areas of good practice in relation to financial management. Section three of this report sets out detailed examples of good practice and recommendations for improvement in relation to each question set out in the model.

The following areas for potential improvement were identified during the review.

Theme 1: Financial Governance & Leadership

- We noted that the SLA with the Department of Jobs, Enterprise and Innovation ("DJEI") for 2016 was not finalised until August 2016. EI should endeavour to complete the SLA agreement process closer to the commencement of the financial year.
- Financial management is not currently an appraisal area for all budget holders. Budget management appraisal should be a mandatory objective in the annual performance development process for every budget holder, including those outside the Finance function.
- EI should consider defining a policy on the use of financial models, requiring adherence to a standardised set of controls and introducing a formal and scheduled review of financial models in use. Any policy / standardised set of controls should consider the risk associated with the models in use.

Theme 2: Financial Planning

- EI should consider quantifying, at a high level, the cost of delivering their strategic objectives over the lifetime of the strategy to the degree that this is practical and possible.

Theme 3: Finance for Decision Making

- The review did not identify any opportunities for improvement in this area.

Theme 4: Financial Monitoring and Forecasting

- The review did not identify any opportunities for improvement in this area.

Theme 5: Financial Performance and Reporting

- Key performance indicators tracking EI's performance against the targets agreed with DJEI were not included in the sample monthly financial packs that were provided as part of the review. EI should consider the suite of financial packs that are provided to management and the Board and ensure that key performance indicators tracking EI's performance against the targets agreed with DJEI are included.

2. BACKGROUND AND APPROACH

2.1 REVIEW OBJECTIVES

The Office of the Comptroller and Auditor General plays a central role in the public accountability process by providing assurance to Dáil Éireann on the manner in which public funds have been administered and on preparing reports on matters arising out of audits and other statutory examinations.

The core work of the OCAG is the conduct of financial audits which culminate in expressing an audit opinion on all financial statements of the State and State-sponsored bodies falling within the audit remit of the Comptroller and Auditor General. The Office also carries out a range of other work designed to test on a discretionary basis whether;

- Value for money is achieved by State organisations
- Good financial management principles are applied in the administration of public funds
- Funds paid to bodies who receive more than 50% of their funding from the State are applied for the purpose intended
- Public business is conducted properly.

In July 2016, Mazars was engaged by the OCAG to develop a Financial Management Maturity Model ("FMMM") for use in the Irish public sector. Following development of a draft FMMM, the OCAG requested that Mazars carry out a high-level review of financial management within EI using the FMMM as a support tool.

The purpose of the review in EI was to conduct an independent review of financial management in EI with the objective of validating the contents of the draft FMMM and supporting further discussion with the OCAG regarding the OCAG's approach to carrying out reviews of financial management.

2.2 OVERVIEW OF THE FMMM

The draft FMMM used to support the review in EI was based on a model developed by the National Audit Office ("NAO") in the UK. Prior to applying the model in EI, the NAO model was reviewed and updated to ensure it was aligned with current best practice and appropriately reflected the requirements of the Irish public sector environment.

Similar to the NAO model, the draft FMMM model uses a series of descriptors to help readers understand how the organisation currently operates and the scope for improvement. The model contains a mixture of practice, awareness and outcome descriptions to help users to fully consider the financial management maturity of an organisation.

Within the model, financial management practice and awareness are considered by asking 15 key questions grouped under five themes as set out below:

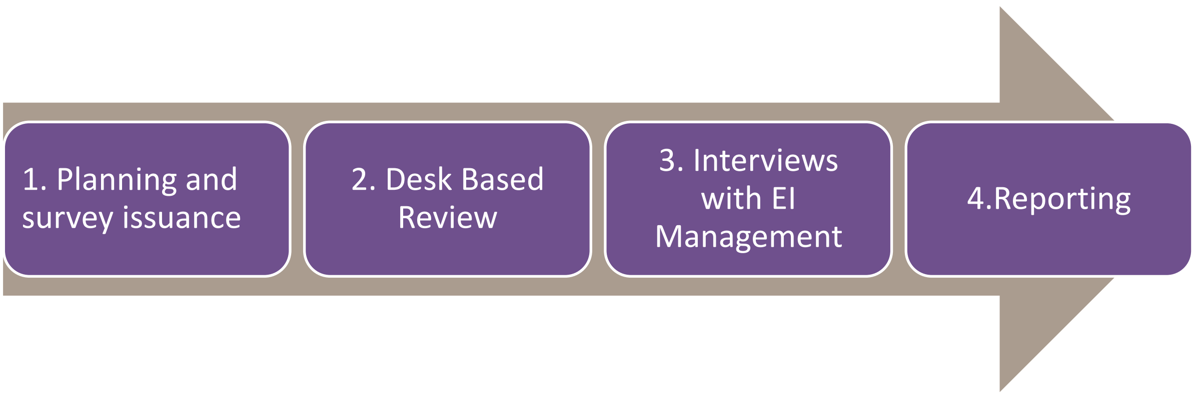
Financial management is then described at five levels of maturity with one being the lowest level and five the highest.

2.3 APPROACH

The approach to the review of financial management in EI was designed to support the evaluation of the principles set out in the draft FMMM.

The approach involved reaching conclusions on each of the fifteen questions set out in the draft model and identifying areas of strength and areas of potential improvement for EI. The model itself was not used as an audit framework and we did not attempt to allocate a maturity rating to EI. The model was used as a support for understanding relevant good practice principles as they relate to all public sector bodies and it provided an overall structure for reporting on the results of the review.

The approach involved four main stages and can be summarised as follows:



Further details on each of the four stages are provided below.

Stage 1: Planning and Survey Issuance

- Development of a self-assessment questionnaire to accompany the FMMM. Mazars produced a spreadsheet to accompany the model which allowed EI to select their maturity level under each question posed and to provide a commentary supporting the level chosen.
- Preparation of a work program to support Mazars in conducting a high level review of financial management in EI and issuing the associated documentation request.
- Attendance at an initiation meeting with EI to explain the purpose of the engagement, provide EI with guidance on completing the self-assessment and discuss the information request.

Stage 2: Desk Based Review

- Performance of a detailed review of information provided by EI to support an independent review of financial management. This also involved review of information on the EI website and information provided by the OCAG.
- Review of the self-assessment questionnaire completed by EI. Mazars reviewed the survey response provided by EI and identified areas that required further consideration.

Stage 3: Interviews with EI Management

- Attendance at meetings with the EI Finance Manager, Finance Team Leader, Secretary to the Board and members of the Management Team to explore queries arising from the desk based review. Given the wide scope of the review, these meetings were critical in obtaining information to support the assessment conclusions.

Stage 4: Reporting

- Verification of facts used to support the review of financial management in EI. Mazars documented an objective set of facts in relation to each of the fifteen questions included in the FMMM based on the desk based review and interviews. This document was then issued to EI for factual verification prior to the development of the draft report. The verified document provided this basis for the observations made in this report.
- Preparation of a draft report for both the OCAG and EI.
- Preparation of final report.

2.4 APPROACH LIMITATIONS

It was agreed with the OCAG that the review would be high level in nature and the scope was limited to focussing on the operational financial management activities of EI.

This review was not an audit and we did not attempt to independently verify each fact presented to us by management. A large volume of information was provided to Mazars as part of the review. Whilst we attempted to review the documents and extract pertinent information, we did not attempt to conduct a forensic review of all the information provided. We placed reliance on the individuals interviewed during the process to highlight the most relevant documentation. Mazars also placed reliance on the documents and information provided by EI.

The work conducted by Mazars was not an audit and hence does not provide the same level of assurance as an audit. Our review was limited in nature and may not necessarily disclose all significant facts related to financial management within EI.

The review specifically excluded evaluation of the financial management arrangements associated with the oversight, management and monitoring of the EI investment portfolio and the provision of funding packages to clients. As such investment expenditure and income arising from investment activities were not covered in the scope of the review.

2.5 ENTERPRISE IRELAND – AN INTRODUCTION

Enterprise Ireland ("EI") is the Irish state economic development agency responsible for the development and growth of Irish enterprises in world markets.

The mission statement of EI is "*to deliver a major improvement in the international strength of Irish enterprise across all regions by transforming the innovation and competitive capabilities of Irish companies. We will achieve this by inspiring and supporting ambitious business leaders to increase the scale of their businesses and expand their reach into new export markets*"

EI operates from 10 locations in Ireland and 32 locations internationally. In 2015, EI received approximately €278 million in direct government funding from the DJEI. Further income was earned from other government departments and from own resource income generated by EI.

The EI website details the range of services it provides including;

- *Funding supports - a range of supports, for start-ups, expansion plans, and R&D business plans.*
- *Export assistance - including the provision of in-market services, local market information and the facilities of our international office network.*
- *Supports to develop competitiveness - helping companies to become leaner to make them more competitive in international markets.*
- *Incentives to stimulate in-company R&D – new product, service and process development to ensure sustainability, and growth through the evolution of products and services.*
- *Assistance with R&D collaboration - with research institutions, to develop and bring to market new technologies, products or processes.*
- *Connections and introductions to customers overseas - access to a global network of contacts - from heads of government to end customers.*

The Board has specific responsibility for setting the broad strategy and policies of the organisation, the system of internal control and ensuring that the processes and procedures are put in place to ensure that the system of control is effective. The Board has oversight responsibility for the activities of the organisation and delegates responsibility to both sub-committees and management for the day to day implementation and completion of those activities.

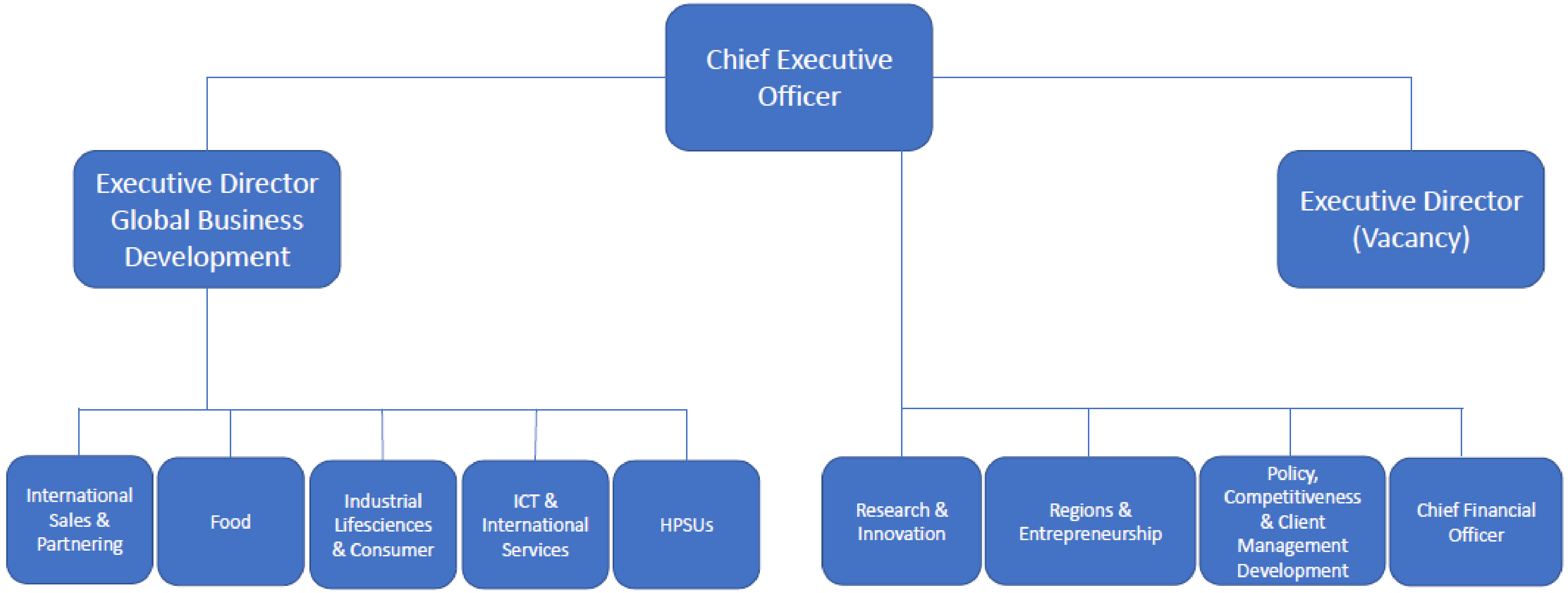
The following Sub-Committees are of considerable significance from a financial management point of view:

- The Audit Committee assists the organisation in discharging its legal and accounting responsibilities and provides the communications link with the external auditor and evaluates and co-ordinates the Internal Audit Function and Risk Management process in EI.
- The Investment Portfolio Committee has responsibility for overseeing the management of EI's investment portfolio and for maintaining an oversight of the investment activity of funds supported by EI under the various seed and venture capital programmes.
- The Strategy 2020 Committee has responsibility for developing the strategy for EI 2017 - 2020.
- The Investment Committee is empowered to approve funding packages up to €1.25 million for projects where previous approvals of funding do not exceed €3.25million for one undertaking within the previous two years.

At executive level, the Executive Committee manages and controls the administration of EI's budget, monitors progress against organisational targets, and considers matters of corporate policy, including financial product guidelines, sectoral policies and strategies, regional strategy and new and amended programmes and schemes

EI is currently structured in nine operational divisions which report to the Chief Executive Officer ("CEO"). The current organisation structure is the following:

Organisation Structure
As of February 2018



3. SPECIFIC OBSERVATIONS AROUND THE KEY THEMES

3.1 THEME 1: FINANCIAL GOVERNANCE AND LEADERSHIP

Q1. What emphasis do the Board and Executive Team place on their own responsibility and on the culture of collective responsibility for financial matters?

Based on high level review of information provided by EI, we detail the following examples of good practice:

Examples of Good Practice	• We noted a high degree of emphasis on financial matters at both Board and Senior Management Team ("SMT") level. Both the Board and the SMT have established sub-committees with responsibility for maintaining oversight of financial management activities. • Board Sub-Committees include the Investment Portfolio Committee and the Investment Committee. Based on sample documentation reviewed we noted examples of effective engagement between the Board, Board Sub-Committees and the SMT with clearly defined responsibilities, accountabilities and reporting arrangements. • The documented remit of the Executive Committee places a high degree of emphasis on financial management with documentation indicating a focus on both operational and strategic financial management matters. The Executive Committee controls the administration of EI's budget, monitors progress against organisational targets, and considers matters of corporate policy, including financial product guidelines, sectoral policies and strategies, regional strategy and new and amended programmes and schemes. In a similar manner to the Board, the Executive Committee has established several sub-committees such as the Finance and Operations Committee to deliver its remit. • The Board and Executive Committee receive monthly financial packs from the Finance Team which are tailored to both groups and are inclusive of both numeric and explanatory content. Based on sample documentation reviewed we noted that the quality of financial information made available to the different stakeholders is detailed and is tailored to the recipient groups. We noted a high degree of discussion of financial matters at both Board and Senior Management level. • A presentation from the Finance Manager on the monthly financial pack is a standing item on the Board Agenda. This creates a forum for questions raised by Board Members to be addressed. The Executive Committee also receive a presentation from a member of the Finance Team and can raise queries at that point
Areas for potential Improvement	• The review did not identify any opportunities for improvement

Q2. How do the systems of internal control, governance arrangements and risk management processes operate?

Based on high level review of information provided by EI, we noted the following examples of good practice and for potential improvement:

Examples of Good Practice	• Based on our review of documentation provided, we noted that EI has an established system of internal control in place which is aligned to the three lines of defence model of internal control i.e. internal control, risk management and internal audit defences. • Control functions have been established for several years and there are defined reporting structures in place to support the communication and escalation of control matters. • A detailed annual controls self-assessment is completed by managers within the Finance Team and this self-assessment is reviewed by the Internal Auditors. • A formal risk management framework has been in place for several years and the risk register reviewed indicates that there is a link between the risk, control and required action. We noted evidence of regular review and active improvement. • EI have commenced a programme to increase the sophistication of risk management arrangements by including a more detailed definition of its risk appetite (including tolerance levels and early warning mechanisms) and further distilling risk management across all levels of the organisation through the use of divisional / departmental risk registers that act as a support the Enterprise Risk Register • The oversight and reporting arrangements between EI and DJEI are established. There is a service level agreement ("SLA") in place between EI and the DJEI. This content of the SLA is drafted and agreed on an annual basis and the deliverables listed are aligned to the delivery of the strategic objectives of EI. Sample documentation reviewed indicated that progress against the deliverables in the SLA is monitored on a monthly basis through the provision of key performance indicators to DJEI. Discussions with EI indicated that a quarterly meeting between EI and the DJEI facilitates a full review of progress and allows for changes to be agreed in line with economic developments on a timely basis
Areas for potential improvement	• We note that the SLA for 2016 was not finalised until August 2016. EI should endeavour to complete the SLA finalisation process closer to the commencement of the financial year.

Q3. What financial management capacity have the Board (including the Audit Committee) and Executive Team, the finance department and staff working outside finance

Based on high level review of information provided by EI, we detail the following examples of good practice and for potential improvement:

Examples of Good Practice	• Based on our review of sample documentation we noted that there is good representation of finance skills and experience on the Board, Board sub-committees, the Executive Committee and the Finance Team. The composition of the Board and Board sub-committees indicates broad breadth of expertise including but not limited to, expertise in financial management. • The Board of EI comprises 11 Non-Executive Directors. The Chairman has significant financial experience. The remaining Board Members comprise senior executives from both public sector and private sector organisations who have a diverse range of skillsets including strong financial management skills.

	• The Audit Committee is chaired by a Non-Executive Director who is an experienced accountant. • The Executive Committee is comprised of individuals with both internal EI experience and external expertise. • EI engages external advisers routinely on matters relating to financial management e.g. risk management, internal audit, process mapping and procurement. Based on work performed we observed examples of EI retaining accountability and responsibility for matters where external advice was sought e.g. procurement.
Areas for potential Improvement	• Financial management is not currently an appraisal area for all budget holders. Budget management appraisal should be a mandatory objective in the annual performance development process for every budget holder, including those outside the Finance function. • EI should consider defining a policy on the use of financial models, requiring adherence to a standardised set of controls and introducing a formal and scheduled review of financial models in use. Any policy / standardised set of controls should consider the risk associated with the models in use.

Q4. What training and continuous professional development in financial management is provided to staff both within and outside the finance department?

Based on high level review of information provided by EI, we noted the following examples of good practice:

Examples of Good Practice	• We were informed that EI provides financial management training to staff on commencement of employment within EI and when additional training needs are identified as part of the performance management process. • At a Board level, we noted that induction training is provided to Board and Board sub-committee members and based on high level review of the induction materials we noted a strong financial management focus. Induction materials are focused on EI specific practices and public sector context which appears to be appropriate given the high degree of financial expertise apparent among Board Members.
Areas for potential improvement	• The review did not identify any opportunities for improvement. We note that the recommendation previously raised relating to inclusion of financial management competencies is also relevant to this question

3.2 THEME 2: FINANCIAL PLANNING

Q5. How is financial planning and monitoring integrated with the organisation's strategic and corporate planning process?

Based on high level review of information provided by EI, we detail the following examples of good practice and areas for potential improvement:

Examples of Good Practice	• We noted indicators of high focus by the Board in relation to strategy and strategic decision making including the appointment of a Board Sub-Committee dedicated to drafting the new strategy for EI for the period 2017 – 2020. This Board Sub-Committee comprises five non-executive members. In minutes reviewed by Mazars it is clear that the strategy was clearly presented to the Board, debated and considered prior to being approved. We were informed that the draft strategy is reviewed by and feedback is received from the DJEI prior to the strategic plan receiving final approval. • Based on sample documentation review and consultations, we noted that financial planning and monitoring are integrated with the organisation's strategic and corporate planning process. The strategic objectives outlined in the strategic plan align with the deliverables for the period set out in the SLA with DJEI. EI's corporate plan is an implementation plan to deliver these requirements. The estimated income from and costs required to deliver the actions under the SLA form the basis of financial planning within EI and informs the estimates process. Furthermore, key performance indicators are generated on a monthly basis monitoring performance against the deliverables. • We noted examples where the Finance and Operations Committee highlighted areas within the budget reports which required special consideration by the Board and the Executive Committee. Presentations are made by the Finance Team to the Finance and Operations Committee, the Executive Committee and the Board.
Areas for potential improvement	• EI should consider quantifying, at a high level, the cost of delivering their strategic objectives over the lifetime of the strategy to the degree that this is practical and possible.

Q6. How robust and streamlined are the systems for financial planning?

Based on high level review of information provided by EI, we detail the following examples of good practice and areas for potential improvement:

Examples of Good Practice	• We noted that the financial planning/budgeting processes are well defined and mature and we noted examples of active involvement by budget holders, the Finance Team, the Executive Committee, the Finance and Operations Committee and the Board. • The budgeting process comprises the initial estimates process, the initial budget further to the agreement of the final estimates, monthly reconciliations of management accounts to budget and two scheduled budget reallocations in April and September of each year. Both the initial budget and the budget reallocations are presented to the Finance and Operations Committee, the Executive Committee and the Board by the Finance Team. • Although the budgeting process is initiated and controlled by the Budgeting Team Leader in the Finance Team, the budget holders also input into the

	budget. The budget holders are asked to submit requests for the funding that they require to deliver the tasks allocated to them under the Corporate Plan. This includes a degree of judgmental scenario planning. We were informed that budget holders are supported by the Finance Team to cost the delivery of these tasks.
Areas for potential improvement	• We note that the recommendation previously raised at question 3, relating to inclusion of financial management as an appraisal area, is also relevant to this question

Q7. 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, cash flow and balance sheet projections?

Based on high level review of information provided by EI, we noted the following examples of good practice:

Examples of Good Practice	• The financial budget produced stipulates the financial resources required by management to deliver the stipulated actions in the corporate plan, which aligns to the SLA. The SLA translates the periodic strategic objectives of EI into actions to be completed on an annual basis. • We noted that performance based budgeting is the underlying premise of the budgeting process within EI. • Financial planning is the responsibility of the Finance Team in conjunction with budget holders. We were informed that the Finance Team retain responsibility for ensuring that each cost centre budget aligns with the overall organisational budget, that income and cost synergies are identified and benefitted from and that costs are streamlined and not duplicated across the organisation. • We noted evidence demonstrating that cash flow requirements are projected in EI as part of the annual estimates process when the anticipated annual cash flows are submitted to the DJEI. EI submit drawdown requests to DJEI throughout the year in line with the approved estimates. The projected cash flows provide a useful measure for EI throughout the year as they provide a baseline for reviewing actual income and expenditure against what was projected during the annual estimates process
Areas for potential improvement	• We note that the recommendation previously raised, relating to quantification of resources required to deliver their strategic objectives over the lifetime of the strategy is also relevant to this question

3.3 THEME 3: FINANCE FOR DECISION MAKING

Q8. 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?

Based on high level review of information provided by EI, we detail the following examples of good practice and areas for potential improvement:

Examples of Good Practice	• We noted that responsibility for managing discretionary expenditure has been allocated to the Finance and Operations Committee and Group Events and Sponsorship Committee. Managers requesting funding from these Executive Sub-Committees are required to submit a business case for the expenditure and to present this case to the relevant sub-committee prior to receiving approval for expenditure. We noted that the sub-committees are responsible for approving expenditure in advance of the expenditure being incurred. • We noted that EI is participating in the Office of Government Procurement ("OGP") frameworks where they deem it appropriate to reduce the number of individual procurement processes run by the organisation and to benefit from the volume based pricing regularly agreed under the OGP framework agreements.
Areas for potential improvement	• The review did not identify any opportunities for improvement

Q9. 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?

Based on high level review of information provided by EI, we noted the following examples of good practice:

Examples of Good Practice	• EI generates own resource income from a diverse range of activities such as dividends from investments, professional fee income re providing services (i.e. research work to clients, rental income from sub-letting office space, financial support refunds and bank deposit interest. • EI has well defined descriptions of income streams and income recognition policies documented in the financial statements. These policies state that both a high level of certainty and ongoing liaison with income sources is required prior to income being recognised in the financial statements. • Policies state that, prior to recognising income, EI must prove that they are entitled to receive payment, that it is probable that the payment will be received and that they can reliably forecast payment amount. This policy is reflective of good practice in income recognition.
Areas for potential Improvement	• The review did not identify any opportunities for improvement

Q10. How are investment appraisal and project management processes used to evaluate costs and benefits and to inform all key policy, operational and investment decisions?

Based on high level review of information provided by EI, we noted the following examples of good practice:

<table>
<tr><td>Examples of Good Practice</td><td>

The Board of EI has delegated responsibility for operational investment activities to two Board Sub-Committees which are composed of senior personnel.
The Investment Portfolio Committee has responsibility for overseeing the management of EI's investment portfolio and for maintaining oversight on the investment activity of funds supported by EI under the various seed and venture capital programmes it administers. This Sub-Committee has been allocated responsibility for ensuring that the investment portfolio held is appropriate to meet the strategic objectives of EI which align to what was agreed with the DJEI under the SLA. Membership of this Sub-Committee includes an external consultant, two Board members, divisional management and the EI CEO.
The financial implications of implementing the strategic priorities are managed by EI through:

The estimates process when funding is secured to deliver its strategic objectives
The initial budget process when funding is allocated to the various cost centres in the organisation
The budget reallocation processes when funding is realigned to current business needs
The ongoing administration of the contingency fund to deal with expenditures which were not provided for during the budgeting process

We noted that processes have been established to support identification and prioritisation of operational expenditure based on business cases submitted from budget holders as opposed to basing expenditure on historical precedent.
EI has a team dedicated to procurement. There is both an approved procurement policy and a publicly available procurement record in place.

</td></tr>
<tr><td>Areas for potential improvement</td><td>

The review did not identify any opportunities for improvement.

</td></tr>
</table>

3.4 THEME 4: FINANCIAL MONITORING AND FORECASTING

Q11. 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?

Based on high level review of information provided by EI, we detail the following examples of good practice and areas for potential improvement:

Examples of Good Practice	• We noted that the circulation date for the monthly financial packs to the Board is timely given that they are scheduled shortly after period end • Based on our review of a sample monthly financial packs provided to the Board, Executive Committee and the Finance and Operations Committee reviewed, we noted that the monthly financial information provided is accompanied by a commentary. This commentary facilitates the user to substantiate the movements since the previous month and against budget. The sample monthly financial packs to the Board, Executive Committee and the Finance and Operations Committee reviewed highlighted issues arising across the organisation that could potentially impact future financial performance. • We noted evidence demonstrating that the Finance Team make presentations to the Finance and Operations Committee, the Executive Committee and the Board on a monthly basis and that such presentations provided an opportunity to address any queries arising around the quality and accuracy of the financial information circulated at that time • We noted consistency of terminology and classification across sample financial management information reviewed. This is a positive attribute as it allows for cross reference and review between documents and between periods which is useful for ongoing financial management. • We were informed that budget holders have access to up to date financial information on their cost centres through the cost centre outturn reports on the budgeting and reporting system. We understand that this information is relatively real time as it updates from the Oracle Finance System twice daily. In principal, this facilitates management in maintaining continuous oversight of their cost centres and identifying any inaccuracies in postings to their cost centre on a timely basis.
Areas for potential improvement	• The review did not identify any opportunities for improvement.

Q12. How are appropriate financial and non-financial indicators covered within the monitoring and forecasting reports such as operational reports, Board reports, management accounts, annual report and business plans?

Based on high level review of information provided by EI, we detail the following examples of good practice:

Examples of Good Practice	• We noted from our review of sample documentation received that performance against prescribed KPIs are reported to the Board on a monthly basis. This facilitates the Board's understanding of EI's progress against the annual operational targets. • We noted that performance against KPIs is also reported to the DJEI. We were informed that a quarterly meeting is held with the DJEI to discuss EI's performance against the KPIs specifically stipulated in the SLA. This process ensures that both EI and DJEI have timely awareness of areas where the organisation may not be performing as expected and facilitate measures being taken to address this underperformance.
Areas for potential improvement	• The review did not identify any opportunities for improvement

Q13. What is the quality of the financial management, operational performance management systems, including transactional processing systems?

Based on high level review of information provided by EI, we noted the following examples of good practice:

Examples of Good Practice	• There are two primary financial reporting systems in use within EI – Oracle Financials and Budgeting and Reporting System. Further to our discussions with the Finance Team and operational managers we understand that these systems are considered of high quality and are meeting the requirements of EI. • We were informed that the budgeting and reporting system allows the budget holders to access financial information on their cost centre on a continuous basis which facilitates ongoing oversight and review. • We were informed that the systems allow finance to tailor certain reports for individual managers when they are requested to do so.
Areas for potential improvement	• The review did not identify any opportunities for improvement.

3.5 THEME 5: FINANCIAL PERFORMANCE AND REPORTING

Q14. How are the reports of financial and performance information tailored to the needs of the user, both internal and external?

Based on high level review of information provided by EI, we noted the following examples of good practice and areas for improvement:

Examples of Good Practice	• We noted from our review of the sample monthly financial packs provided to both the Board and Management that information is tailored to the needs of the user groups and is supported by presentations made by the Finance Team. • Based on our consultations with EI we understand that EI maintain active contact with OCAG throughout the year regarding developments within EI, any proposed changes to accounting treatment and changes to presentation in the financial accounts. • We note that a calendar to schedule tasks to facilitate the annual audit is prepared by EI and agreed with the OCAG to facilitate providing information to the OCAG promptly after the financial year end.
Areas for potential improvement	• The review did not identify any opportunities for improvement.

Q15. How timely are the reports that are presented to internal and external users?

Based on high level review of information provided by EI, we detail the following examples of good practice

Examples of Good Practice	• We noted examples demonstrating that the monthly financial packs are timetabled to be circulated shortly month end which facilitates review and feedback from recipients on a timely basis. • The annual financial statements as audited by the OCAG are prepared on a timely basis for audit and published on a timely basis by EI as part of their annual report. • We were informed that the budgeting and reporting system allows the budget holders to access financial information on their cost centre on a continuous basis which facilitates ongoing oversight and review.
Areas for potential improvement	• The review did not identify any opportunities for improvement.

Appendix C

Overview of performance based budgeting

Figure C.1 Performance based budgeting — an introduction

The objective of performance based budgeting (PBB) is to improve efficiency and effectiveness by linking expenditure to results to be delivered and making systematic use of performance information.

Essential requirements for performance based budgeting include

- information about the objectives and desired results for the expenditure
- a budget preparation process that facilitates the use of this information in budget funding decisions.

Benefits of performance based budgeting include improved compliance, decision-making, accountability, transparency, efficiency and service delivery.

Their are four levels of maturity in performance based budgeting

1 Uncertainty — budgeting processes are not performance based

2 Initialising — the identification of a champion, high level approval, creation of an implementation plan and the selection of performance measures

3 Managing — the integration of performance based budgeting into the organisation and having a centrally managed and audited process

4 Optimising — process automation, excellent data collection and analysis, feedback loop including financial management maturity measurement

Source: International Monetary Fund; Public Performance Measurement and Reporting Network.