

# INTERNAL AUDIT REPORT

**FROM:** Audit and Risk Manager                      **SUBJECT:** Medium Term Financial Strategy  
**TO:** Head of Finance  
Strategic Finance Manager                      **DATE:** 14 November 2013  
**C.C.** Chief Executive  
Deputy Chief Executive (AJ)

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## 1. Introduction

- 1.1. In accordance with the Audit Plan for 2013/14, Ian Wilson, Senior Internal Auditor, has completed an examination of the above subject area and this report presents the findings and conclusions for information and action where applicable.
- 1.2. My thanks are extended Jenny Clayton, Strategic Finance Manager, for the help and co-operation received during the audit.

## 2. Scope And Objectives Of Audit

- 2.1. The purpose of the examination was to report a level of assurance on the adequacy of controls in the formulation and maintenance of the Medium Term Financial Strategy to address the key risks to the Council's future finances.
- 2.2. The examination comprised an evidential review of structures and processes for developing and maintaining financial strategies, focusing on the following main themes:
  - § policies and other influences determining general approach (e.g. forecasting time range, methods, etc.);
  - § roles and responsibilities;
  - § monitoring, review and updating.
- 2.3. The findings are based on discussions with the Strategic Finance Manager and examination of relevant documents and records.

## 3. Findings

### 3.1 General Background

- 3.1.1 For a number of years, local authorities have been strongly encouraged to develop a medium and longer-term approach to their financial planning. Councils are expected to have robust planning arrangements and give consideration to external factors as appropriate. It is important medium and longer term plans are supported by processes which allow them to be updated on a regular basis so that they can respond to events.

3.1.2 According to professional sources, the usual financial planning cycles in local government are three years for revenue and five years for capital. For Warwick District, the adopted cycles manifest from the approved Financial Strategy are five years and four years respectively (this is mentioned as an advisory observation only).

3.1.3 The basic approach and method are long established with evidence showing the present supporting models to have been in place for more than ten years, although with some enhancements in the meantime. In the last few years a previous tendency to produce separate reports on the Financial Strategy for senior management and Members has given way to total absorption into budget approval and review reporting.

### 3.2 Policies and Other Influences

3.2.1 Basically, the Fit for the Future Programme establishes the Financial Strategy as one of four officially recognised resource strategies. From 2008, what constituted a separate Capital Strategy was combined with the Financial Strategy into a single document, although it was not formally removed as a recognised strategy in its own right until 2010. That said, the Financial Strategy still makes reference to 'the Capital Strategy' in a way that suggests to the reader the existence of a separate document - some reconsideration of wording might be advisable.

3.2.2 The Significant Business Risk Register refers to a 'Medium Term Financial Plan' as a key mitigation/control element along with more generalised references to financial planning and forecasting. 'Medium Term Financial Strategy' only started to appear as an adopted term from 2008 and has remained a regular feature in budget approval and review reports and as the given name of appendices to those reports extracted from the revenue forecasting spreadsheet model.

### 3.3 Roles and Responsibilities

3.3.1 There is an historic assumption in evidence that the core Financial Strategy requires annual approval by full Council, although observations from more recent documentation (discussed further in 3.4.7 below) have served to challenge this. The key provision in the Constitution seems to be the statement on Executive functions as part of its overall financial management role. The applicable clause states:  
'To recommend to Council the basis upon which revenue estimates and capital programmes should be prepared'.

3.3.2 While there is no specific mention in this context, the Code of Financial Practice has effectively interpreted the 'basis' as including financial strategy. The relevant key provisions of the Code are:

§ The Executive is responsible for proposing the 'broad' strategy to full Council.

§ The Head of Finance acts as advisor on financial strategy as part of the Section 151 role.

3.3.3 In the context of supporting processes, the Head of Finance is designated as responsible for keeping the Executive informed on the state of the Council's finances and the financial implications of approved developments. The Code goes on to make Heads of Service and Budget Managers responsible for keeping the Head of Finance informed of any loss or shortfall of funds.

3.3.4 In practice, the support process for maintaining the Financial Strategy is led on a day-to-day basis by the Strategic Finance Manager.

#### 3.4 Monitoring, Review and Updating

3.4.1 The Excel spreadsheet model referred to in 3.2.2 above is the centrepiece of the whole support process. It is a fairly complex model which the file properties indicate was originally designed by ICT Services in 2002 with some additional features added over the years. The model is used to produce supporting appendices on Medium Term Financial Strategy updates that form part of budget reports to the senior management and Members.

3.4.2 The Excel file itself is held in a network folder accessible only to the Strategic Finance Manager, Head of Finance and ICT support staff. The model is continually updated with 'feeds' from varied sources, although previous versions are saved periodically. Changes are logged with reference to back to 'feed' sources which range from external advisories to internal budget review process outcomes.

3.4.3 A measure of internal reconciliation has been incorporated in the model based on a comparison of opening and closing totals in a period against component changes.

3.4.4 A curious feature of the Excel Strategy workbook is the blanket locking of cells, suggesting an intention to apply cell protection to at least some of the ten worksheets that make it up. In the event the protection was not activated so the 'lock' formatting is totally ineffective.

3.4.5 While this does not represent a significant risk given the access restrictions in place, it is seen as meriting some advisory comments. Cell protection is a basic spreadsheet control discipline that eliminates the risk (however slight) of formulas and fixed content cells being inadvertently overwritten or corrupted, and the consequent time spent investigating reconciliation imbalances that it could entail. Selective cell locking is a straightforward and quick task for any person with command of the technique involved.

3.4.6 As already stated, review of the Financial Strategy at senior management and Member level is absorbed into the budget approval and review cycle. The Medium Term Financial Strategy features to varying degrees in the budget review reports to Senior Management Team. This is generally monthly, though with some irregular gaps in evidence.

- 3.4.7 Reporting to Members shows a more consistent pattern over the annual cycle. The core Financial Strategy forms part of the budget submission in to Executive in February. Up to February 2012, the Executive resolution had consistently been to recommend the Financial Strategy to Council in line with the aforesaid assumptions. In February 2013, however, changes in the wording of the Executive report meant that Executive (not Council) approval was being sought and the resolution was minuted merely as the revised Financial Strategy being 'noted' by Executive.
- 3.4.8 This was discussed with the Head of Finance who agreed to look into the matter. The impression gained from this was that this is not a conscious departure from the previous decision regime for the Financial Strategy. It can be argued that transparency of the reporting process to Council implies full Council approval for the Financial Strategy, although this should ideally be unambiguous. Again, this is raised as an advisory without formal recommendation.
- 3.4.9 In-year changes impacting on the medium term projections are reported as part of the first quarter budget review report to Executive in August and second quarter budget review in November. There is a more detailed airing of the Medium Term Financial Strategy as part of the General Fund base budget submission in December.

#### 4 **Conclusions**

- 4.1 The examination has concluded that a robust control framework is in place for maintaining a Medium Term Financial Strategy that appropriately informs budget decisions and is underpinned by sound support processes. The findings give SUBSTANTIAL assurance that the structures and processes operate effectively to manage the applicable risks.
- 4.2 There are no recommendations arising, although advisory points are raised for management in respect of the following minor matters:
- § wording of the core Financial Strategy with respect to 'Capital Strategy';
  - § observations on cell protection in the Excel Medium Term Financial Strategy model;
  - § some ambiguity over whether the of wording of the report to Executive in February 2013 and minutes arising constitute full Council approval of the Financial Strategy.

Richard Barr  
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