



INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager **SUBJECT:** Medium Term Financial Strategy

TO: Head of Finance **DATE:** 29 September 2016

C.C. Chief Executive
Deputy Chief Executive (AJ)
Strategic Finance Manager
Principal Accountants

1 Introduction

- 1.1 In accordance with the Audit Plan for 2016/17, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where applicable. This topic was last audited in November 2013.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 The 2016/17 to 2020/21 Medium Term Financial Strategy (MTFS) was approved by the Council at their meeting on 24th February 2016.
- 2.2 The MTFS details the general fund revenue statement forecast for the period 2016/17 to 2020/21. The MTFS identifies if additional revenue savings or income are required with the objective of achieving a financially-balanced general fund.

3 Scope and Objectives of the Audit

- 3.1 The overall objective of the audit was to report a level of assurance with regard to the controls in place for the Medium Term Financial Strategy to ensure that the council's operations and key objectives continue to be sufficiently resourced.
- 3.2 Detailed testing was performed to confirm that controls identified have operated as expected with documentary evidence being obtained where possible, although some reliance has had to be placed on verbal discussions with relevant staff.

- 3.3 The control objectives that have been considered as part of this audit include:
- Policies and procedures
 - Roles and responsibilities
 - Monitoring, review and updating.

4 Findings

4.1 Previous Report

- 4.1.1 The previous report had no recommendations.

4.2 Policies and procedures

- 4.2.1 The process for compiling the Medium Term Financial Strategy 2016/17 to 2020/2021 is an integral part of the budget setting process for the general fund.

- 4.2.2 The Finance reports (including the MTFS) presented to the Executive meeting on 10th February 2016 clearly set out the MTFS with a commentary and the five-year MTFS statement and supporting schedules.

4.3 Roles and responsibilities

- 4.3.1 Section 2 of the Code of Financial Practice (COFP) was reviewed with the objective of verifying roles and responsibilities for the MTFS. Inspection of the COFP confirms that budget holders' responsibilities are clearly documented in respect of (a) the Executive (b) Head of Finance, and (c) Services.

- 4.3.2 The auditor confirmed with the Principal Accountants the process to identify changes in the environment that could have a financial impact on the MTFS. The Principal Accountants have monthly budget monitoring meetings with the service area budget holders where there is a forum to discuss any service changes that will impact on the revenue income or expenditure for the MTFS. Changes are documented on a spreadsheet held on the Finance shared drive. Although there are arrangements in place to identify relevant changes, there is a concern that the process is not sufficiently robust, in particular that the range of factors assessed is not broad enough.

Risk

Relevant changes in business environment factors may not be assessed.

Recommendation

The political, economic, social and technological environment should be surveyed routinely for their impact on the MTFS.

The results should be categorised as Certain, Probable or Possible with the first two categories assessed for their financial impact on the MTFS.

The frequency of updating to the MTFS should be monthly to align with the revenue budget monitoring arrangements.

4.4 **Monitoring, review and updating**

- 4.4.1 Audit review of monitoring and updating of the MTFS considered (a) the spreadsheet model for the period 2016/17 to 2020/21 monitored by finance (b) MTFS reports presented to the Executive (c) supporting documentation to support the MTFS model, and (d) the Fit for the Future change programme report to the Executive dated 2 June 2016.
- 4.4.2 The 2016/17 Budget and Financial Information book was inspected to review the format of the MTFS. It was noted that the yearly recurring developments, limited growth and savings and items funded from reserves are listed but are not specifically linked to service areas. Doing so would provide clear transparency of strategic service financial changes within the MTFS.

Risk

At service level, incremental revenue changes to the MTFS may not be identified.

Recommendation

The MTFS should be prepared such that it groups recurring developments, limited growth, savings and items funded from reserves by service area by year.

- 4.4.3 The authority's council tax precept is recovered from the liable residential properties as held in the Civica council tax system. Audit enquiries of the council tax liable property base indicate that the current aggregate base is similar to the property base in the MTFS for 2016/17. For the period 2017/18 to 2020/21 the MTFS assumes a year-on-year property increase of five hundred properties per annum. Following the results of the European Referendum and current economic business forecasts, new housing development is predicted to slow down. This is likely to have an unfavourable financial impact on the council tax to be raised from the liable property base when projections are reviewed.
- 4.4.4 The Fit for Future (FFF) change programme sets out the yearly phasing of revenue savings and additional income for the period 2017/18 to 2020/21 in table 1 of the report to Executive of 2 June 2016. The FFF change programme should be linked directly to the MTFS because service savings/additional income stream categories will be the same. However, reconciliation between table 1 and the MTFS revenue savings and additional income for the same period could not be performed by the auditor.

Risk

There may not be alignment between the MTFS and the Fit for Future change programme.

Recommendation

A reconciliation of the 2017/18 to 2020/21 revenue savings/additional income per the FFF change programme report should be made with the MTFS for the same period and the MTFS updated accordingly.

5 **Conclusions**

5.1 Following our review we are able to give a SUBSTANTIAL level of assurance that the systems and controls in place for the Medium Term Financial Strategy are appropriate and are working effectively.

5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 Several areas for improvement were noted which, when addressed, will improve internal control even more.

6 **Management Action**

6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of the Medium Term Financial Strategy – September 2016

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.2	<p>The political, economic, social and technological environment should be surveyed routinely for their impact on the MTFS.</p> <p>The results should be categorised as Certain, Probable or Possible with the first two categories assessed for their financial impact on the MTFS.</p> <p>The frequency of updating to the MTFS should be monthly to align with the revenue budget monitoring arrangements.</p>	Relevant changes in business environment factors may not be assessed.	Low	Strategic Finance Manager	<p>The MTFS is a living document, fed from many sources, including the Significant Business Risk Register, where the consideration of such aspects are considered. Following such consideration, if there are any issues that need to be included within the MTFS with reasonable certainty, these are duly factored in. To create a new process/routine is not necessary.</p> <p>MTFS updated regularly on an on-going basis. MTFS is reported periodically as part of Budget Monitoring arrangements, notably when significant changes have been newly included.</p>	N/A

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.4.2	The MTFS should be prepared such that it groups recurring developments, limited growth, savings and items funded from reserves by service area by year.	At service level, incremental revenue changes to the MTFS may not be identified.	Low	Strategic Finance Manager	This will only be practicable for the MTFS presented as part of the February Budget report and Budget Book due to the MTFS being a living document with all changes forming part of the full audit trail.	February 2017.
4.4.4	A reconciliation of the 2017/18 to 2020/21 revenue savings/additional income per the FFF change programme report should be made with the MTFS for the same period and the MTFS updated accordingly.	There may not be alignment between the MTFS and the Fit for Future change programme.	Medium	Strategic Finance Manager	MTSF is a living document. It has been updated to include the Summer 2016 Executive update, and is also informed from other supplementary sources of information.	Done.

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention