



FINAL INTERNAL AUDIT REPORT

MEDIUM TERM FINANCIAL STRATEGY (MTFS) – PLANNING, FORECAST AND GOVERNANCE ARRANGEMENTS

CEX/03/2023

SEPTEMBER 2023

Auditor	Assistant Manager (Mazars LLP)
Reviewer	Manager (Mazars LLP)
	Partner (Mazars LLP)

Distribution list

Job Title
Director of Finance
Head of Finance, Children, Education, and Families
Head of Corporate Finance

Executive Summary

Audit Objective	The overall objective of the audit was to review the effectiveness of controls over the financial planning process and a review of assumptions made, including documenting, approving, and monitoring these. This internal audit does not provide assurance over the accuracy and robustness of financial plans and budgets.
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Assurance Level		Findings by Priority Rating		
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.	Priority 1	Priority 2	Priority 3
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Key Findings
<p>1. The Council Statement of Accounts for the year ending 31 March 2020 states that these were signed by the Director of Finance on 2 May 2023 and had been approved by the Chairman of the Audit and Risk Management Committee of the London Borough of Bromley on 2 May 2023.</p> <p>2. Our review of the 2019/20 Statement of Accounts¹ found the following mentions related to the Council's Medium Term Financial Strategy (MTFS):</p> <ul style="list-style-type: none"> • <i>“The Council's budget strategy has to be set within the context of a reducing resource base with Government funding reductions continuing beyond 2020. There remains an ongoing need to reduce the size and shape of the organisation to secure priority outcomes within the resources available”</i> (Pages 13,14); • <i>“Although it has been possible to achieve a broadly balanced budget for 2020/21 through identifying savings and continuing with prudent financial management, there remains a significant budget gap by 2023/24. The Council is a low-cost authority and the position will need to be regularly reviewed”</i> (Pages 14); • <i>“There remains a "budget gap" of £0.8m in 2021/22 rising to £16.9m per annum in 2023/24. The projections from 2021/22 have to be treated with some caution, particularly as the Government's next Spending Review, outcome of the Fair Funding Review and Business”</i>(Pages 149). <p>3. The latest Medium-Term Financial Strategy (MTFS) 2023/24 was presented to the Council's Executive on 8 February 2023 and Full Council on 27 February 2023². The MTFS covers the 2023/24 to 2026/27 period. Through the review of the MTFS 2023/24, we noted:</p> <ul style="list-style-type: none"> • The MTFS stated that <i>“the 2023/24 Budget enables the Council to continue to deliver on its key priorities, and the financial forecast enables medium-term financial planning”</i>;

1 <https://www.bromley.gov.uk/downloads/file/2084/lb-bromley-statement-of-accounts-2019-20>

2 <https://cds.bromley.gov.uk/ieListDocuments.aspx?CId=115&MId=7299&Ver=4>

- The report mentions that *“the Council has been facing financial uncertainty and has a medium-term 'budget gap' to address. The Director of Finance recommends a minimum sum of £20m to be kept as general reserves to reflect this uncertainty”* (Page 27);
 - The report suggests that *“the Council has limited scope to utilise general fund reserves for capital spending in excess of the current capital programme and will need to continue to progress a program of asset disposals”* (Page 27);
 - The Council's financial forecast assumes that *“the level of core grant funding will remain unchanged, in real terms, from 2025/26. This suggests that the Council is not expecting significant increases in funding from the government”* (Page 2);
 - The report provides a detailed breakdown of various funds and reserves, including their balances at the end of each fiscal year from 2022 to 2026. Some funds show a net decrease over the years, while others remain stable. For example, the 'Technology Fund' decreases from £1,198,000 in 2022 to £114,000 in 2026, while the 'Invest to Save' fund remains stable at £18,512,000 over the same period (Page 28-29)
 - Upon review of the Council's Corporate Strategy 2021/2031³ and the Council's MTFS 2023/24, we noted that the MTFS appears to align with the Corporate Strategy, for example, the Corporate Strategy states: *“During the life of this plan, our priorities and actions will be influenced by resident and service user engagement, demand pressures and performance management, staff engagement and workforce development, risk management, changes in statutory responsibilities, pressures arising from our Medium Term Financial Strategy and national, regional and local political priorities.”* (Page 30); and
 - The MTFS highlights the key areas which affect the Council's revenue and capital programs and plans for these over the medium term.
4. We noted through a review of Appendix 1 of the MTFS 2023/24 that assumptions are made. They considered factors relevant to the Council, such as the annual increase in Gross Domestic Product (GDP) and inflation. Assumptions used in forecasting were supported by documented evidence maintained by the Director of Finance.
 5. Various services within the Council hold discussions with Directors who feed this into the MTFS process. We evidenced this thorough review of emails between different Directors (including the Director of Finance) regarding the assumptions used in forecasting.
 6. We reviewed the Corporate Risk Register (May 2023) and Finance Risk Registers (dated April 2023) and confirmed that there is a risk management framework that includes financial risks within the MTFS. Also, Appendix 4 of the MTFS highlights key factors to determine the sustainable level of one-off reserves that should be retained and the significant value of retaining such reserves. The Council has estimated general reserves on hold of £18.5 million as of 31 March 2023 (as reported to the Executive members on 30 November 2022).
 7. We reviewed the Council Tax Report presented to the Executive members of the Council on 08 February 2023 and noted that assumptions that were consistently being considered in the budgeting process of the Council covering areas such as treatment of interest rates and inflation, level and timing of capital receipts, revenue impact of the capital programme and so forth.
 8. Budget reports are considered within the Council's management teams or relevant forums (such as Chief Officer Executive, Council Leadership Team and Finance Steering Group) before final reports are presented to Executive members. This was evidenced through a review of the Council's draft budget for

³ <https://www.bromley.gov.uk/downloads/download/142/making-bromley-even-better-corporate-strategy-london-borough-of-bromley>

2023/24 and a series of emails between the Director of Finance and other Officers involved in the budgeting process (for example, the Head of Finance, Children, Education, and Families) as evidence of deliberation of the budget monitoring reports.

9. We confirmed through review of the meeting minutes for Policy Development and Scrutiny (PDS) Committees (25 January, 15 March, and 28 March 2023) that the budget monitoring (and its related reports) were a standing agenda item and were deliberated in this structure.
10. From our review of the above-mentioned budget monitoring reports presented by the Head of Finance to the Executive for various decision makers such as (Portfolio Holder for Children, Education and families, Portfolio Holder for Adult Care and Health and Executive) on 14, 15 and 29 March, we confirmed that variances had been identified and analysed. Explanations were provided for both positive and adverse variances on each occasion.
11. We obtained the agenda for the Chief Officer Executive meeting (COE) in connection with the 'Budget Growth & Challenge Session' dated 24 August 2022 and noted that budget matters such as growth and assumptions for the current MTFS 2023/24 were deliberated. We noted that as part of ongoing budget monitoring when there is a change in the assumptions or circumstances, the budget is updated to account for those changes. In addition, we reviewed the budget challenge emails between Council Officers. We noted that the changes to the budget were scrutinised and discussed before the budget update.
12. As part of our work, we have raised two 'Priority 3' recommendations regarding the Risk Management Framework and the Financial Regulations.

Management has agreed to actions for all findings raised in this report. **Please see Appendix A.**

*Definitions of assurance opinions and priority ratings are in **Appendix B.***

*The scope of the internal audit is set out in **Appendix C.***

Appendix A - Management Action Plan

1. <u>Risk Management Strategy and Risk Management Toolkit</u>	
<p><u>Finding</u></p> <p>Upon review of the Risk Management Strategy and Risk Management Toolkit, we noted that they were not regularly reviewed as they were last reviewed in April 2018, more than five years ago.</p> <p>Management indicated that they are aware that this guidance requires updating, and the Head of Audit and Assurance indicated that they are part of the work plan for the forthcoming financial year.</p> <p><u>Risk</u></p> <p>Over time, the business environment, industry, and internal factors may change, leading to new or different risks. If the risk management strategy is not reviewed periodically, it may fail to address emerging risks adequately and result in outdated risk assessments and the inability to mitigate or respond effectively to new threats.</p>	
<p><u>Recommendation</u></p> <p>The Council should consider defining the process for the periodic review of the Risk Management Strategy and Risk Management Toolkit. The Council may consider specifying the frequency of review of this guidance.</p>	<p><u>Rating</u></p> <div style="border: 1px solid black; background-color: #d9ead3; padding: 2px; display: inline-block;">Priority 3</div>
<p><u>Management Response and Accountable Manager</u></p> <p>As indicated by the Head of Audit and Assurance, the Risk Management Strategy and Risk Management Toolkit will be reviewed through the Corporate Risk Management Group and the outcome of the review with action plan for completion within 2024</p>	<p><u>Agreed timescale</u></p> <p>June 2024</p>

2. Financial Regulations

Finding

Whilst we noted that the roles of various stakeholders involved in the budgeting process were clearly defined in the Financial Regulations and Procedures, we noted that the Financial Regulations and Procedures were dated 2020. The document did not contain a document version control and as a result, we were unable to determine the frequency of review and we could not determine when the next review date.

Risk

Where the document version control is not contained in the policy, there is a risk that it would be difficult for the new employees to understand the current practice of the policy review, this may result in the possibility of the policy review being missed.

Recommendation

The Council should consider showing evidence of a review of the Financial Regulations by way of the document version control and define the frequency of review such as two-yearly where applicable, the next review date should also be shown as part of the document version control. The Council may consider specifying the frequency of review of the Financial Regulations.

Rating

Priority 3

Management Response and Accountable Manager

Agreed. Version control and review frequency will be included in the next update of Financial Regulations, which had been discussed by the Financial Management Team prior to this audit commencing, although the start of the review has been delayed in order to prioritise publication of the Council's draft accounts for 2020/21 and external audit of those accounts.

Agreed timescale

April 2024

Appendix B - Assurance and Priority Ratings

Assurance Levels

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Action Priority Ratings

Risk Rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.

Appendix C – Audit Scope

Audit Scope

We reviewed the adequacy and effectiveness of controls over the following risks:

- Long and medium-term financial plans and/or business plans may not be in place, be up to date, or may not adequately reflect:
 - The organisation's strategic objectives and long-term aspirations.
 - Key strategic considerations (including corporate objectives, risk analysis, budget setting and investment plans).
- Assumptions used in forecasting are not supported by reliable evidence leading to inaccurate financial projections.
- Inadequate financial planning may lead to the Council not having access to the appropriate level of cash when financial plans and/or business plans require it.
- Suitable buy-in to the financial and business planning process from stakeholders may not be achieved, leading to unsupported plans being progressed.
- Failure to identify and manage financial risk. Inadequate risk mitigation strategies. Inadequate monitoring and reporting of financial risks.
- Monitoring progress against financial plans and/or business plan targets may not occur regularly, be effective or lead to corrective action being taken where key variances occur.

The internal audit scope included the following:

- **Financial Planning and Forecasting**

The Council has an approved medium-term financial strategy aligned with the strategic objectives of the Borough.

Assumptions used in forecasting are supported by reliable evidence and subject to independent scrutiny or review before the MTFP is presented to Members.

Allowances are made to ensure the MTFP adequately covers risks (i.e., contingency planning and reserves).

The sensitivity of forecasts to changes in key assumptions is analysed and considered regularly.

- **Governance and Control**

There is an established governance framework for financial planning and budgeting. The MTFP is subject to different levels of scrutiny and challenge before it is presented to Council Members.

The role of the key stakeholders and decision-makers is clearly outlined.

There is wider consideration within the Council's management teams or relevant forums before final reports are presented to Members. (i.e., assumptions in forecasting, approvals, and independent reviews).

- **Risk Management**

A risk management framework includes the identification and measurement of financial risks faced by the Borough.

Risk mitigation strategies are in place that are adequate and based on best practice frameworks.

Management and Senior Management maintain regular meetings to review operational and strategic risks, including financial risks linked to the MTFP.

- **Monitoring and Reporting**

The financial forecasts are reported regularly, accurately, and completely to Senior Management.

Monitoring and reporting arrangements are effective and include material variances and exceptions.

The MTFP is updated if needed based on the changes in the assumptions or circumstances the Council faces. There is a feedback mechanism for improvement suggestions.