



AGENDA ITEM **9**

## **Watford Borough Council**

**Audit 2010/11**

### **Review of the Council's arrangements for securing financial resilience**

Specification - March 2011

Draft for agreement with management

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# 1 Summary of the review

## 1.1 Context

Our 2010/11 Value for Money conclusion will be based upon two reporting criteria specified by the Audit Commission being:

- Criteria 1 - The Council has proper arrangements in place for securing financial resilience
- Criteria 2 - The council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The guidance issued by the Audit Commission surrounding the first criteria requires auditors to consider whether the Council has robust financial systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

## 1.2 Our work

We will undertake a review of the Council's arrangements specifically looking at selected key indicators of performance, financial governance, strategic financial planning and financial control. Part of our work will involve detailed review of the robustness of aspects of the Medium Term Financial Plan, including realism of assumptions (e.g. staffing, inflation, interest rates, pension contributions) and detail of savings plans including supporting documentation and arrangements at the departmental level.

## 1.3 Benefits

The review will provide the Council with independent review and constructive challenge and will contribute to the Council's assurance around its management arrangements for securing financial resilience. We will provide the Council with a simple report (including Red/Amber/Green ratings) highlighting key strengths and areas where the Council could improve its arrangements. Our work is intended to help the Council to continually improve the robustness of its arrangements for dealing with the significant financial challenge ahead.

## 1.4 Logistics

We anticipate carrying out the review in March/April 2011 and reporting the results to the June meeting of the Audit Committee (to be agreed with management). Our work will involve review of key documents and interviews with officers. The review will be managed by Richard Lawson and delivered using members of the audit team who are experienced in performing such reviews.

## 2 Work plan

### **2.1 Key indicators of performance**

Through consideration of the Council's own performance measures and operational objectives we will select some relevant key indicators of performance for benchmarking analysis. We will then be able to review the Council's position against those of similar Councils and make some observations in the selected areas of review.

The ratios considered in this are may include some or all of the following as well as other additional measures:

- Working capital ratio
- Out-turn against budget
- Useable reserves to gross revenue expenditure
- Long term borrowing to tax revenue
- Gross expenditure per head of population
- Sickness absence levels
- Council tax income as proportion of net revenue expenditure
- Financing revenue spend from grants, council tax, NNDR and other income
- Government grants as proportion of revenue expenditure.

### **2.2 Strategic financial planning**

This area of our work is specifically concerned with the Council's Medium Term Financial Plan (MTFP) and will focus on the following areas;

- Focus of the MTFP
- Scope of the MTFP and its links with annual planning
- Adequacy of the planning assumptions
- Review processes
- Responsiveness of the MTFP.

### 2.3 Financial governance

This area of work will consider two key aspects of governance being understanding and engagement, and monitoring and review. We will look at the following areas:

Understanding and engagement	Monitoring and review
<p><b>Understanding the financial environment</b> The controls for assurance and performance monitoring focusing on financial management, governance and risk management</p>	<p><b>Review of accuracy of Committee/Cabinet reporting and reconciliation to management reporting</b></p>
<p><b>Executive and member engagement</b>  Overview for controls over key cost categories</p>	<p><b>Performance management of budgets</b>  Overview of information reported at Cabinet in year and at year end  Commentary on in year variances against plan in addition to year end variances</p>

### 2.4 Financial control

Our work in this area of the review will be split in two components:

**Internal arrangements** which will consider the following:

- Performance management of budgets
- Budget setting and budget monitoring and forecasting including detail of frequency of forecasting
- Performance against savings plans
- Finance department resourcing and qualifications/experience.

**Internal and external assurances** which will consider the following:

- Key financial accounting systems.
- Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit.

**Grant Thornton UK LLP**  
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