

EXTERNAL AUDIT - LOCAL GOVERNMENT SECTOR UPDATE

Committee: Resources and Finance Committee

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[T234]

1. ISSUE

1.1 Ernst and Young (EY), the Council's external auditors, produce regular briefing notes, detailing their view of the local government sector and raise key questions that the audit committee need to be considering. As previously agreed at the Corporate Governance and Finance Committee, this note provides Members of this Committee (as the Council's audit committee) details of the Council's position with regard to these key questions.

2. RECOMMENDATION (S)

2.1 Members are requested to note the report.

3. BACKGROUND/OPTIONS

3.1 EY's full briefing is attached as appendix 1 to this report.

3.2 This raises seven key questions for the audit committee to consider on page ten of the report.

3.3 Question 1 – 2018 Budget

How has the 2018 Budget impacted the local authority's financial plans for the current year and the year ahead?

The national budget presented to Parliament on the 29th October 2018 had little impact on the Council's financial position. The main change announced was additional retail relief for businesses with a rateable value of under £51,000, but as Government will be providing councils with Section 31 Grant to fully compensate for the reduced rates collected, it has no impact on overall funds available.

The one change that may assist local councils is the possible rate relief on public toilets, but as primary legislation is needed for this and it is not planned to happen until April 2020, it is too early to be clear of the impact, and no allowance was made in the budget approved by Council.

3.4 Question 2 – CIPFA Investment Guidance

How much is your authority dependent on commercial investment income to fund services?

This Council has no commercial investment income in its current budget. This Council has not brought commercial properties, as other councils have done, as a means to secure rental income in future years.

That said, while not the main focus of East Cambs. Trading Company, it is expected that, in particular, the development arm of the Company will make significant profits in future years, which in turn will allow it to pay dividends to the Council. However at this point, as the timing of these is not certain, no allowance has been made for these in the approved budget.

3.5 Question 3

What governance structures are in place to ensure that the authority's borrowing is proportionate to its need and level of resources?

The Council's new Treasury Management Strategy Statement as approved at Full Council, is in line with the latest published guidance. All borrowing will be in line with the Council's Capital Financing Requirement, i.e. to fund its approved capital programme. No other borrowing (such as to purchase commercial investments) is proposed at this time.

3.6 Question 4 – IFRS 9: Statutory Override

Have you considered the impact of the new IFRS 9 accounting standard? How will you plan for the possibility that the statutory override will end in five years' time?

Yes, the IFRS9 accounting standard has been considered, but as this Council has no commercial investment properties and holds any spare cash in overnight funds, it is unlikely to have much, if any, impact.

The one possible area that it could impact, is if at any point it is believed that ECTC will be unable to pay back its loan in March 2021. At this point, if the statutory override is not in place, the Council would need to make allowance for any expected shortfall. However, as at this point it is expected that the full loan will be repaid, then this is not of concern.

3.7 Question 5 – Public Sector Pension Scheme Valuation

Have you taken into account the impact of the most recent review of the public sector pension scheme on your budgets and medium term financial position?

No account of any changes in pension contribution rates has been included in the budget. The robustness of Local Government Pension schemes are calculated by the actuary every three years, with authorities then being required to adjust their contribution rate to reflect the balance on the fund and the difference between expected returns and payments in the long-term. This triannual valuation is due to take place in April 2019 and will take into account, amongst other issues, those highlighted in the EY briefing. Once this has been calculated the revised contribution rate will come into effect in April 2020 and our budget for that year will need to be adjusted, as required, to reflect this.

3.8 Question 6 – Local Public Audit – Expectations gap

How far do you recognise the issues of the ICAEW [Institute of Chartered Accountants in England and Wales] report on the expectations gap in local public audit? What is your perspective on the value that external audit provides?

The Audit Fee paid by this and other local authorities has been reduced in recent years as the Public Sector Audit Appointments process has driven competition. While this is good news for local authorities in balancing their finances, it remains important that this does not impact on the quality of advice and assistance external audit provide, particularly in relation to their value for money conclusion, which should be providing an external professional view of the risks surrounding the Council's future financial health.

3.9 Question 7 – PSAA: Report on results of the 2017/18 audits

What lessons have you learnt from the earlier accounts and audit deadlines in 2017/18? Are you confident that these lessons will be applied for the 2018/19 accounts and audit process?

Much work was needed in order to close the 2017-18 accounts to the earlier timeframe, not aided by new staff within the team being required to learn many of the processes as the work was undertaken. We are in a far better position this year, with far greater knowledge within the team and of the communication channels available between ourselves and EY. I am therefore confident that, all things being equal, we will be able to achieve both the initial draft production and final audit deadlines.

4. ARGUMENTS/CONCLUSIONS

As can be seen, this Council is aware of and has undertaken steps where necessary to address the issues highlighted in the EY briefing paper as they impact on district councils.

5. FINANCIAL IMPLICATIONS / EQUALITY IMPACT ASSESSMENT

5.1 There are no financial implications linked to this report at this time.

5.2 Equality Impact Assessment (INRA) not required.

6 APPENDICES

6.1 Appendix 1 – EY Briefing – Local government audit committee briefing

<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
EY Briefing – Local government audit committee briefing (as attached as appendix 1)	Room 104 The Grange Ely	Ian Smith Finance Manager Tel: (01353) 616470 E-mail: ian.smith@eastcambs.gov.uk