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**EXTERNAL AUDIT - LOCAL GOVERNMENT SECTOR UPDATE**

Committee: Resources and Finance Committee

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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 report is attached as appendix 1 to this report.
- 3.2 This raises nine key questions for the audit committee to consider on page 10 of the report.
- 3.3 Question 1 - Brexit

*Has your authority considered the implications of Brexit? What plans does your authority have in plan to mitigate potential risks associated with Brexit?*

The Council has not specifically assessed the impact of Brexit, although it is thought that any implications will be indirect, as opposed to direct. A full understanding will clearly not be known until the Brexit "divorce" deal is finalised and approved (or not) and indeed the subsequent trade deal drafted. However, some areas where it may have an impact are, suppliers finding it difficult to recruit staff, reduced foreign investment, changes in legislation and the regulatory framework, such as GDPR, state aid, public procurement etc., and the voting rights of EU nationals in local elections.

- 3.4 Question 2 – CIPFA Financial Resilience Index

*Does the proposed CIPFA financial resilience index provide your authority with the support needed to achieve a balanced budget?*

The exact format of the Financial Resilience Index remains unclear, but hopefully it will provide a further advisory tool for Council's to assess their financial position. The Index is expected to be more backwards facing, rather than forward looking, which is of some concern, but until the final product is unveiled it is difficult to assess its full value.

### 3.5 Question 3 – Consultation on the adoption of IFRS 16

*How prepared is your authority for the changes in process, systems and data collection as a result of CIPFA implementation of IFRS 16?*

IFRS 16 is not due to be introduced until 2019-20. While the consultation on its implementation is now closed, guidance notes have not yet been published and so the exact workings and how it will impact on authorities remains unclear.

However the accounting standard relates to operating leases, where the local authority is the leasee. East Cambs currently has no operating leases as leasee and so at this point, we are not expecting this to have any material impact on our accounting.

### 3.6 Question 4 – Consultation on proposed statutory overrides for IFRS 9

*How has the authority assessed the impact of the new accounting standard IFRS 9 Financial Instruments and the potential statutory overrides on your budget?*

This Council has few investments that would be impacted by the new accounting standard, although the investment we hold in East Cambs Business Centres, is, I believe, one such investment.

The Statutory Override has now been granted for local authorities and will be in place for a minimum of five years. Therefore if at any point during this period the value of the Company was calculated to be less than the historic cost invested, this would prevent the need for this cost to be charged onto Council Tax payers.

The agreement with East Cambs Trading Company is a loan, not an investment, and so I believe, this to be outside the scope of this accounting standard.

### 3.7 Question 5 – LEP Governance

*Is your local authority part of a LEP? If so, what arrangements are in place to ensure that the authority has sufficient assurance over the governance of the LEP?*

The Greater Cambridgeshire and Greater Peterborough LEP was replaced by a new "Business Board" in September 2018 and is fully integrated into the governance of the Cambridgeshire and Peterborough Combined Authority

(CPCA). East Cambridgeshire District Council is a full constituent member of the CPCA.

The governance of the CPCA (including the Business Board) is overseen by the CPCA Audit Committee and the Business Board has its own Assurance Framework owned by the CPCA and Business Board. This has been developed in response to the Government's National Assurance and Framework guidance on governance and transparency (reference DCLG November 2010).

### 3.8 Question 6 – Social Care

*Given the spending pressures on social care and the sustainability of funding sources, what is the authority's strategy to ensure the sustainability of social care? How does the authority ensure that it maximises value for money from its social care service and ensures that the quality of care provided is appropriate?*

As a district council we are not responsible for Social Care and as such this question is not directed at us. However members should be aware that with the Spending Review / Fair Funding Review taking place in 2019, to impact from 2020-21, there must be concerns that more local government funding will be directed to councils that have social care responsibilities, which would (assuming the local government financial quantum remains the same) be at the detriment of district councils.

### 3.9 Question 7 – Social Housing

*What plans does your local authority have to ensure that there is sufficient social housing in the area? Has your authority responded to the Governments green consultation paper?*

This Council is not a provider of social housing and as such, has not responded to the green paper.

### 3.10 Question 8 - Transformation

*Is your local authority considering or does your local authority have plans to transform its business? If so, how will the audit committee exercise good governance over these arrangement? Have you used the NAO transformational guidance?*

There are no plans at this point to undertake any major transformation in the Council. Recent transformation has taken place via the Council's trading companies, which are monitored by the Council through the Shareholder Committee. We have not used the NAO transformational guidance.

### 3.11 Question 9 – EY Cybersecurity Strategies

*Is your organisation still thinking about cyber security as a defensive approach or a source of transformation and distinct advantage?*

I think it is probably true that we continue to think of cybersecurity as a process for protecting our systems, but we are trying to be proactive in this. Indeed senior officers and officers from IT have attended a cybercrime awareness session earlier today from the East Midland Cyber Crime Unit.

## 4 ARGUMENTS/CONCLUSIONS

The Council is already fully aware of and has undertaken steps where necessary to address the issues highlighted in the 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 Report – Local government audit committee briefing

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