



HILLINGDON  
LONDON



## Audit Committee

### Members on the Committee

John Morley (Chairman)

George Cooper

Raymond Graham

Paul Harmsworth

Richard Lewis

**Date:** THURSDAY, 20  
SEPTEMBER 2012

**Time:** 5.00 PM

**Venue:** COMMITTEE ROOM 3 -  
CIVIC CENTRE, HIGH  
STREET, UXBRIDGE UB8  
1UW

**Meeting  
Details:** Members of the Public and  
Press are welcome to attend  
this meeting

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Published: 12 September 2012

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INVESTOR IN PEOPLE

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## **This Committee**

This Committee will be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control. This Committee will also consider risk management issues and performance reports.

## **Terms of Reference**

The Constitution defines the terms of reference for the Audit Committee as:

### **Statement of Purpose**

The purpose of Audit Committee is to:

- provide independent assurance of the adequacy of the Council's risk management framework and the associated control environment
- provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment
- oversee the financial reporting process.

### **Audit Activity**

The Audit Committee will:

1. Approve but not direct Internal Audit's strategy and plans, ensuring that work is planned with due regard to risk, materiality and coverage. This will not prevent Cabinet directing internal audit to review a particular matter.
2. Review the Head of Internal Audit's Annual Report and Opinion and Summary of Internal Audit Activity (actual and proposed) and the level of assurance this can give over the Council's corporate governance arrangements.
3. Review summaries of Internal Audit reports and the main recommendations arising.
4. Review a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. Consider reports dealing with the management and performance of the providers of internal audit services.

6. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
7. Monitor management action in response to issues raised by External Audit.
8. Receive and consider specific reports as agreed with the External Auditor.
9. Comment on the scope and depth of External Audit work and ensure that it gives value for money.
10. Liaise with the Audit Commission over the appointment of the Council's External Auditor.
11. Commission work from Internal and External Audit, following a formal request by the Committee to and a joint decision from the Leader of the Council and Cabinet Member for Finance & Business Services.
12. Ensure that there are effective arrangements for ensuring liaison between Internal and External audit.

## **Regulatory Framework**

The Audit Committee will:

1. Maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour. And, where necessary, bring proposals to the Cabinet and/or Council for their development.
2. Review any issue referred to it by the Chief Executive or a Director, or any Council body.
3. Approve and regularly review the authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on risk related issues.
4. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process.
5. Oversee the production of the authority's Statement of Internal Control and recommend its adoption.
6. Review the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.

7. Consider the Council's compliance with its own and other published standards and controls.

## **Accounts**

The Audit Committee will:

1. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the auditor that need to be brought to the attention of the Council.
2. Consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

# Agenda

## **CHAIRMAN'S ANNOUNCEMENTS**

- 1 Apologies for Absence
- 2 Declarations of Interest in Matters coming before this meeting
- 3 Minutes of meeting held on 26 June 2012 (**Pages 1-8**)
- 4 Exclusion of the Press and Public  
To confirm that all items marked Part I will be considered in public and that any items marked Part II will be considered in private.
- 5 Approval of the 2011/12 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2012 (**Pages 9-40**)
- 6 External Auditor Report on the Pension Fund Annual Report and Accounts (**Pages 41-62**)
- 7 Deloitte Annual Audit Letter – Draft (**Pages 63-74**)
- 8 Internal Audit Progress Report (**Pages 75-112**)
- 9 Audit Committee Work Programme (**Pages 113-116**)
- 10 Changing Legislation and Current Issues

## **PART II**

- 11 Risk Management Report (**Pages 117-126**)

# Agenda Item 3

## Minutes

### Audit Committee

Tuesday 26 June 2012

Meeting held at Committee Room 2 - Civic Centre,  
High Street, Uxbridge UB8 1UW



HILLINGDON  
LONDON

	<p><b>Independent Member:</b> John Morley (Chairman)</p> <p><b>Members Present:</b> Councillors George Cooper, Raymond Graham, Paul Harmsworth and Richard Lewis.</p> <p><b>Officers Present:</b> Kevin Byrne (Head of Policy, Performance and Partnerships), Garry Coote (Corporate Fraud Investigations Manager), Nancy Le Roux (Senior Service Manager – Corporate Finance), Helen Taylor (Head of Audit and Enforcement), Paul Whaymand (Deputy Director of Finance) and Khalid Ahmed (Democratic Services Manager).</p> <p><b>Others Present:</b> Jonathan Gooding (Deloitte)</p>
2.	<p><b>DECLARATIONS OF INTEREST</b></p> <p>Councillors Raymond Graham and Richard Lewis declared Personal Interests in Agenda Item 12 – Oral Update on the Corporate Services &amp; Partnerships Policy Overview Committee review into the Effectiveness of the Audit Committee and its Terms of Reference, as both were Members of the Corporate Services &amp; Partnerships Policy Overview Committee. They both remained in the room and took part in discussions on the item.</p> <p>Councillor George Cooper declared a Personal Interest in Agenda Item 6 – Internal Audit Progress Report as he was a Governor of St Mary’s Catholic Primary School. He remained in the room and took part in discussions on the item.</p> <p>Councillors Raymond Graham, Paul Harmsworth and Richard Lewis all declared Personal Interests in Agenda Item 6 – Internal Audit Progress Report as they were all Members of the Pensions Committee. They all remained in the room and took part in discussions on the item.</p>
3.	<p><b>MINUTES OF THE MEETINGS HELD ON 15 MARCH AND 10 MAY 2012</b></p> <p>Agreed as accurate records.</p>





	<p>Home Education and whether there were any concerns regarding this. The Head of Policy, Performance &amp; Partnerships undertook to get back to the Member who raised this.</p> <p><b>RESOLVED –</b></p> <p>1. That the draft AGS and the comments and views made, be noted.</p>	<p><b>Action By:</b></p> <p><b>Kevin Byrne</b></p>
<p><b>6.</b></p>	<p><b>INTERNAL AUDIT PROGRESS REPORT</b></p> <p>The Head of Audit and Enforcement provided Members with a summary of Internal Audit activity in the period from 20 February 2012 to 31 May 2012.</p> <p>One audit in the current report had received limited assurance, nine had received Satisfactory Assurance, of which three were school audits, and six received Full Assurance of which three were school audits.</p> <p>The following issues were raised by Members:</p> <ul style="list-style-type: none"> <li>• Internal Audit – Resources – Reference was made to the vacant School’s Auditor post. The Head of Audit &amp; Enforcement reported that the recruitment process was already underway for this post and there would be no impact on operations.</li> <li>• Audits of a sample of establishments (day centres) - The Head of Audit &amp; Enforcement reported that these were planned to be undertaken for 2012/13.</li> <li>• Hillingdon Grid for Learning – It was noted that an audit of the service would be carried out in 2012/13.</li> <li>• Utilities – Water Management – The Committee noted the management response to the audit findings.</li> <li>• Capita Online Payment System – The Committee noted that the actions required in the two high risk areas had now been implemented.</li> <li>• HR Payroll Changes and Trigger Dates – The Committee noted management comments on this audit.</li> <li>• Investigation 56 – The Head of Audit &amp; Enforcement would provide Members with an update on this investigation.</li> <li>• Greenwich Leisure Contract – The Head of Audit &amp; Enforcement provided Members with an update of this issue which had been raised at the last meeting. The implementation date for the outstanding actions had been pushed back till November 2012 and these were being progressed.</li> <li>• Fleet Management – The Head of Audit &amp; Enforcement provided Members with an update of this issue which</li> </ul>	



	<ul style="list-style-type: none"> <li>• Disclosure of any qualifications to that opinion</li> <li>• A summary of the audit work from which the opinion was derived</li> <li>• Issues relevant to the Annual Governance Statement</li> <li>• Comments on compliance with standards and the results of the internal audit quality assurance programme.</li> </ul> <p><b>RESOLVED:</b></p> <p>1. That the audit opinion and the evidence on which it was based be noted.</p>	
8.	<p><b>ANNUAL REVIEW OF INTERNAL AUDIT</b></p> <p>Members were reminded that the Accounts and Audit Regulations 2011 required that the Council annually conducted a review of its Internal Audit function.</p> <p>The Committee was informed that this year's review had been carried out by the Head of Audit of the City of London. In addition he assessed the Head of Audit &amp; Enforcement role against the standards set out in the CIPFA document, 'The Role of the Head of Audit in Public Sector Organisations' which had been issued in 2011.</p> <p>The audit service was found to be largely compliant, apart from exceptions already noted by the Committee. There were two minor recommendations which were made as points of good practice.</p> <p>Reference was made to the recommendation made in relation to the Internal Audit function potentially having a wider role in the delivery of the BID transformation programme. The Deputy Director of Finance reported that discussions had taken place with both the Chief Executive and Deputy Chief Executive regarding this and both were of the view that although Internal Audit should continue to have full oversight of the transformation programme they should not be routinely involved in the delivery of the programme itself. This was partly because they would not have the capacity to do so and it would take valuable Internal Audit resource away from other priorities but also so that they could remain independent of the programme which would be important when they came to audit revised operations following BID reviews.</p> <p>The Committee also noted that the Head of Audit &amp; Enforcement was no longer responsible for planning enforcement.</p>	



	<p>recommendations which came out of the review would be fully considered and taken forward by the Leader of the Council and the Cabinet Member for Finance, Property &amp; Business Services, and where appropriate taken to a future Council meeting for consideration.</p>	
13.	<p><b>REPORT TO THE COUNCIL ON THE WORK OF THE AUDIT COMMITTEE FOR 2011-12</b></p> <p>Details of the work carried out by the Committee during 2011-12 were contained in the report.</p> <p>Minor amendments were made to the report.</p> <p><b>RESOLVED –</b></p> <p>1. That, with the amendments suggested, the report be noted and Council be asked to approve the report.</p>	
14.	<p><b>CHANGING LEGISLATION AND CURRENT ISSUES</b></p> <p>The Committee noted the following:</p> <ul style="list-style-type: none"> <li>• Auditing Practices Board – Consultation on the Work of Internal Auditors, together with a summary of the report produced by Deloitte</li> <li>• Auditing Standards Board Paper on Professional Scepticism</li> <li>• National Fraud Briefing – Paper issued by the Audit Commission.</li> </ul>	
15.	<p><b>WORK PROGRAMME 2012/13</b></p> <p>Noted.</p>	
16.	<p><b>INTERNAL AUDIT PROGRESS REPORT</b></p> <p>The report on this item was included in Part II as it contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12 A to the Local Government (Access to Information) Act 1985 as amended.</p> <p><b>RESOLVED –</b></p> <p>1. That the information contained in the report be noted.</p>	
	<p><b>The meeting which commenced at 5.00pm, closed at:</b></p>	

	<b>7.00pm</b>	
	<b>Next meeting: 20 September 2012 at 5.00pm</b>	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes are to Councillors, Officers, the Press and Members of the Public.

# Agenda Item 5

## **APPROVAL OF THE 2011/12 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2012**

**Contact:** Paul Whaymand  
**Telephone:** 01895 556074

### **SUMMARY**

The attached report summarises the findings of the External Auditor on the audit of the 2011/12 Statement of Accounts. The report will be presented to Audit Committee on 20 September by Deloitte.

The auditor has indicated that, subject to completion of some minor procedures, an unqualified opinion will be given and that the Statement of Accounts give a 'true and fair' view. Additionally the auditor is planning to issue an unqualified conclusion on the Council's arrangements for securing value for money.

The report addresses Key Audit risks that were identified prior to audit and reported to Audit Committee on 15 March 2012

### **RECOMMENDATIONS**

- 1. To approve the Statement of Accounts for 2011/12.**
- 2. To note the Auditors findings and adjustments outlined in Appendix 1 of the attached report.**

### **SCOPE OF EXTERNAL AUDIT**

The Council's auditor, Deloitte, is responsible for undertaking an audit of the Statement of Accounts. The outcome of the audit is set out in the attached report.

The International Standard on Auditing Report 260 (ISA 260) requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:

- Financial performance and position
- Accounting policies and financial reporting
- Materiality and identified misstatements
- Accounting and internal control systems
- Value for Money (VFM) conclusion

In addition, the Auditor requires a "Management Representation Letter" to be signed by management and the Committee. The contents of this letter are set out at Appendix 3. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

## **COMMENT ON THE CONTENTS OF THE REPORT**

The audit process for 2011/12 was again efficient and rigorous, commencing a little earlier than previous years and executed by auditors familiar to Hillingdon, thus requiring less officer input and time. The report highlights just three judgemental misstatements and four classification errors. It also provides suggestions for improving certain minor procedural or systems controls and two disclosure deficiencies. Deloitte will discuss these issues in detail at Committee. This represents another very satisfactory audit outcome in Year 2 of reporting under IFRS.

## **ACCOUNTS SUMMARY**

The budget for 2011/12 contained £26.2m of savings and the outturn position posted an underspend of £8m against budget. The accounts show an increase in General Fund balances of £6.9m

The Comprehensive Income and Expenditure shows a deficit of £172.8m attributable to a single payment to Central Government of £191.7m as settlement on the introduction of the HRA self-financing regime. This is then reversed through the Movement in Reserves and Balances so as not to adversely impact on the council tax payer.

The balance sheet decreased by £240.6m chiefly caused by the above liability and an actuarial loss on pension assets and liabilities of £67.4m. The latter was largely due to the lowering of the discount rate used in actuarial assumptions.

The Council decided not to reduce the impairment of £2.5m made in 2012/11 on Icelandic bank losses although the latest bulletin suggests that recovery will be better than anticipated then with a potential reduction of £700k. This will be reviewed in this financial year and brought back to reserves if the outlook remains as promising.

Following the many changes introduced on the implementation of IFRS in 2010/11, there were few substantive changes to accounting requirements this year to report to Audit Committee

## **FINANCIAL IMPLICATIONS**

The financial implications are contained within the body of the report

## **LEGAL IMPLICATIONS**

The legal implications are mentioned within the report.

## **BACKGROUND DOCUMENTS**

None



## London Borough of Hillingdon

Report on the financial statement audit  
for the year ended 31 March 2012

To be presented at the Audit Committee  
meeting scheduled on 20 September  
2012

Audit Committee  
London Borough of Hillingdon  
Civic Centre  
High Street  
Uxbridge  
Middlesex  
UB8 1UW

12 September 2012

Dear Sirs

We have pleasure in setting out in this document our report to the audit committee of the London Borough of Hillingdon for the year ended 31 March 2012, for discussion at your meeting scheduled for 20 September 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The significant risks, which are summarised in the Executive Summary, have been addressed and our conclusions are set out in the report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank Paul Whaymand and his team for their assistance and co-operation during the course of our audit work.



Heather Bygrave

Senior Statutory Auditor

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# Executive summary

Status	Description	Detail
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## Completion of the audit

<p><b>Our audit is largely complete</b></p>	<p>The status of the audit is as expected at this stage of the timetable agreed in our audit plan. The following are the remaining outstanding areas we are required to complete before we can finalise the audit:</p> <ul style="list-style-type: none"> <li>• Completion of procedures on the Whole of Government Accounts (WGA)</li> <li>• Completion of internal review procedures</li> <li>• Review of post balance sheet events</li> <li>• Receipt of signed management representation letter</li> </ul>	<p>N/A</p>
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## Significant audit risks

<p><b>We have not identified any material issues through our procedures in respect of the Council's significant audit risks</b></p>	<p>In our audit plan we identified a number of significant audit risks. Our findings in respect of those risks are as follows:</p> <ul style="list-style-type: none"> <li>• <b>Revaluation of properties:</b> in the 2011/12 year the Council valued a range of assets including community halls, allotments and farms, and assets which had changed status through being completed in the year or were deemed to be surplus to requirements or planned for sale. We considered the process undertaken for the valuation of these assets and reviewed the assumptions used. We concluded that they were reasonable.</li> <li>• <b>Valuation of the pension liability:</b> we considered the assumptions used to calculate the liability relating to the London Borough of Hillingdon Pension Fund to fall within a reasonable range.</li> <li>• <b>Recognition of capital and revenue grant income:</b> our testing of grants identified some instances where the grant recognition criteria had not been correctly applied. The adjustment, which has been accepted and amended by management, resulted in a reclassification of income and expenditure but had no net impact on the net cost of services.</li> <li>• <b>Completeness of bad debt provision for sundry debt:</b> the sundry debt balance includes a number of different sub-categories of debt, each with different methods for calculating the level of provision required. Our testing concluded that overall the level of provision for this balance was reasonable.</li> <li>• <b>Housing Revenue Account self-financing settlement payment:</b> we identified this as a risk because of the size of the settlement (£192m) and the fact that it was a one-off unusual transaction. No issues were noted from our testing.</li> <li>• <b>Recording of capital spend:</b> we identified some inconsistencies in the treatment of capital and revenue spend, particularly with respect to council dwellings. This has resulted in a proposed adjustment of £0.5m which, if corrected, would increase the fixed assets balance but have no net effect on the surplus of the Housing Revenue Account (HRA). As part of this testing we identified another proposed adjustment of £3.3m to reclassify lifts and boilers from the category of council dwellings to plant and equipment. Management has not made these adjustments as it does not consider them to be material but has agreed to adopt a consistent treatment going forward.</li> </ul>	<p>N/A</p> <p>G</p> <p>G</p> <p>G</p> <p>G</p> <p>G</p> <p>A</p>
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● G Risk appropriately addressed     
 ● A Risk satisfactorily addressed but with unadjusted errors identified     
 ● R Material unresolved matter

# Executive summary (continued)

Status	Description	Detail
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## Significant audit risks (continued) Status

<p><b>We have not identified any material issues through our procedures in respect of the Council's significant audit risks</b></p>	<ul style="list-style-type: none"> <li>• <b>Accounting for schools:</b> A number of schools changed status in the year which can change the accounting treatment in the financial statements. We paid particular attention to those schools moving from foundation and community status to academy status, and the appropriate accounting treatment of removing fixed assets relating to community schools from the Council's accounts. We did not identify any issues from our testing.</li> <li>• <b>Management override of key controls:</b> we are required to assume that all organisations have a risk of management override of controls in accordance with international auditing standards. Our testing in this area focuses on key judgements and other areas where we identify the potential for management override, such as manual journals. We did not identify any significant issues but we highlight to the committee that whilst we consider management's judgements to be reasonable on an individual basis, taken together they are at the more prudent end of a range we consider to be acceptable. More details are included within Section 1.</li> </ul>	<p style="text-align: center;">G</p> <p style="text-align: center;">G</p>
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Risk appropriately addressed
  Risk satisfactorily addressed but with unadjusted errors identified
  Material unresolved matter

## Value for money (VFM) conclusion

<p><b>We are planning to issue an unqualified VFM conclusion</b></p>	<p>We are required to undertake certain procedures specified by the Audit Commission in order to provide a value for money (VFM) conclusion.</p> <p>Through our procedures we identified two recommendations. We bring these to your attention but highlight that we did not consider the issues to represent a significant risk to our overall conclusion.</p> <p>We plan to issue an unqualified value for money conclusion for the 2011/12 financial year.</p>	<p>Page 11</p>
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## Risk management and internal control systems

<p><b>We have identified some minor control observations</b></p>	<p>We have not identified any risk management and control observations which we consider to be significant.</p> <p>However, we have identified a number of more minor observations which we have included in Section 3 of this report.</p>	<p>Page 15</p>
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## Identified misstatements and disclosure misstatements

<p><b>Uncorrected misstatements decrease cost of services by £1.2m</b></p>	<p>Audit materiality was £7.5m (2010/11 £7.8m). This was updated from the estimate included in our audit plan which was based on the prior year materiality figure because of the limited information available at the time the planning report was prepared.</p> <p>Uncorrected misstatements identified to date decrease net cost of services by £1.2m (2010/11 £0.3m), and increase net assets by £1.7m (2010/11 decrease of £2.9m).</p> <p>Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. Details of recorded audit adjustments are included in Appendix 1 and a summary of uncorrected misstatements will be attached to the representation letter obtained from the Council.</p>	<p>Page 19</p>
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# Executive summary (continued)

Status	Description	Detail
<b>Significant representations</b>		
<b>We have included a copy of our representation letter</b>	A copy of the draft representation letter to be signed on behalf of the Council is included at Appendix 3. Non-standard representations have been highlighted.	Page 23
<b>Independence</b>		
<b>We confirm our independence</b>	Our reporting requirements in respect of independence matters, including fees, are covered in Section 4.	Page 17
<b>Reappointment</b>		
<b>We have been appointed as external auditors to the Council for five years from 2012/13</b>	<p>The Audit Commission has confirmed our appointment as external auditors to the London Borough of Hillingdon for five years from 2012/13.</p> <p>This appointment has been under Section 3 of the Audit Commission Act 1998 and was approved by the Audit Commission Board at its meeting on 26 July 2012.</p>	N/A
<b>Scoping of material account balances, classes of transactions and disclosures</b>		
<b>We have identified one account balance which is greater than our planning materiality but for which we consider there to be a remote risk of material misstatement. We have therefore performed limited procedures in respect of this balance.</b>	<p>As part of our procedures we undertake a risk assessment to determine the level of substantive testing required as part of the audit. This assessment involves performing procedures on account balances to assess the risk of material misstatement. Those procedures include:</p> <ol style="list-style-type: none"> <li>1. A comparison of the balance to the prior year, obtaining explanations for significant movements and corroborating those explanations to supporting documentary evidence.</li> <li>2. Reviewing a breakdown of the balance in the current year to identify any items that appear to be unusual.</li> <li>3. Reviewing our previous audit work in respect of the balance and considering whether there is a history of error.</li> <li>4. Considering the size of the balance with respect to our planning materiality.</li> </ol> <p>Based on these procedures, if we conclude that the risk of material misstatement is remote, we may choose not to perform further substantive audit procedures on that account balance or note to the financial statements.</p> <p>During the 2011/12 audit we identified one balance greater than planning materiality for which we consider the risk of material misstatement to be remote and therefore we have not performed further substantive audit procedures in this area. That account balance was the supervision and management costs in the HRA of £13,962k (2010/11 £15,489k).</p>	N/A

# 1. Significant audit risks

The results of our audit work on significant audit risks are set out below:



Risk appropriately addressed



Risk satisfactorily addressed but with unadjusted errors identified



Material unresolved matter

## Revaluation of properties



**We consider the Council's valuation of fixed assets to be reasonable**

**We have identified a deficiency relating to the disclosure of the revaluation of assets**

The Council's substantial portfolio of assets is subject to a rolling five year revaluation programme. In the 2011/12 year the Council undertook a detailed revaluation of assets with a carrying value of £107m, which equates to 9% of the £1,178m carried in the balance sheet value for property, plant and equipment at 31 March 2012. The assets subject to a detailed revaluation in 2011/12 included community halls, allotments and farms as well as those assets which changed status either through being completed in the year, or land and property deemed to be surplus to requirements or planned for sale.

As part of our 2010/11 audit we identified that the Council had not undertaken an annual revaluation of its investment property portfolio, despite this being a requirement of the Code. Investment properties have been subject to revaluation for the year ended 31 March 2012.

In the 2010/11 audit we identified a judgemental misstatement relating to the Council's interpretation of the 'instant build' concept required for assets valued using the depreciated replacement cost (DRC) technique. We note that the Council has revalued the assets concerned in the 2011/12 year and has applied the instant build concept in these valuations.

A detailed revaluation of council dwellings was undertaken in the prior year where a significant impairment was recognised as a result of the change in valuation approach to the existing use value for social dwellings. The Council has considered indices provided by the Land Registry to the housing stock in order to update this valuation for the year ended 31 March 2012.

### Deloitte response

We engaged our property specialists Drivers Jonas Deloitte (DJD) to review the assumptions and methodology used to value the different types of land and property. We concluded that the valuation methods selected, and the way in which those methods were applied, was reasonable.

Our testing of the valuation of council dwellings noted that, after consideration, the Council had not applied land registry indices on the basis that the change in value would not have been significant. The Council undertook this assessment using the change in indices from December 2011 to December 2012 as the indices to March 2012 were not available at the balance sheet date. We have considered the potential change to the valuation of dwellings having used indices for the change to March 2012 and do not consider the difference to be material.

Our testing of the interpretation and application of the instant build approach for assets revalued using the DRC technique did not identify any issues.

As part of our testing we also considered whether there was any evidence of impairment to assets which might mean the carrying value of other assets was not appropriate. Our testing did not identify any instances where this was the case.

Our testing of the note for property, plant and equipment identified that it deviates from the Code requirements, specifically in relation to the disclosure of assets which have been revalued and had a balance in the revaluation reserve. Whilst this has no overall impact on the balance sheet, we have identified as a disclosure deficiency in Appendix 1.

# 1. Significant audit risks (continued)

## Valuation of the pension liability

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**We consider the assumptions used to calculate the pension liability for the LBH pension fund to fall within a reasonable range**

The determination of the net pension liability was identified as a risk because it is substantial, and its calculation is sensitive to small changes in judgemental assumptions made about future changes in salaries, mortality and other key variables.

The total pension liability recognised in the draft financial statements of £313,199k is comprised of two funds within the Local Government Pension Scheme (LGPS); the London Borough of Hillingdon (LBH) Pension Fund (£310,410k) and the London Pension Fund Authority (LPFA) Pension Fund (£2,789k).

The total net pension liability has increased by £64,753k on the prior year. The main reasons for this are changes in assumptions used, in particular, lower than expected asset returns and a decrease in the discount rate used.

**Deloitte response**

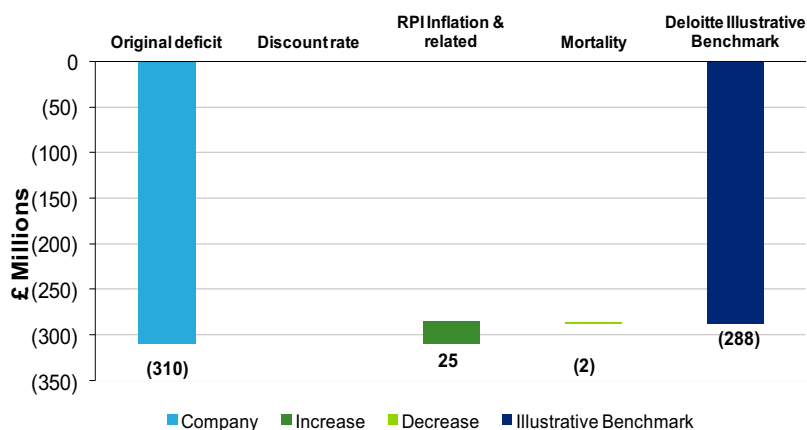
We considered the Council's arrangements, including the use of actuarial services to calculate the pension liability, to be reasonable. We engaged our own actuarial experts to assist in the review of the assumptions used to calculate the pension liability and the resulting accounting entries and disclosures.

### LBH pension fund

Our actuaries have concluded that the assumptions used in the calculation are within a range which we consider to be reasonable, albeit at the more prudent end of that range. We highlight that the assumptions used in the prior year were also at the more prudent end of a range we consider to be reasonable.

The key assumptions used by the Council and the difference compared with the Deloitte illustrative benchmark (our 'house' view) is shown in the chart below.

**Deloitte Illustrative Benchmark Funding Status**



The chart shows that the discount rate and mortality rates are in line with our benchmark where as the Council's RPI inflation and related measures are slightly more prudent which is the result of a difference in the rate of CPI inflation rate used.

### LPFA pension fund

Our actuaries have undertaken a high level review of the assumptions used in calculating the LPFA net pension liability and concluded that the assumptions for discount rate, inflation, increase in payment and deferment are not within the range that they consider to be reasonable for a fund with an estimated duration of 3 years. If the assumptions were changed to be within our illustrative benchmark, our actuaries estimate that the net liability would increase by £350k. This has not been included in our schedule of unadjusted errors as it is below our clearly trivial level of £391k.

We have therefore concluded that the total net pension liability, incorporating both funds, is not materially misstated.



# 1. Significant audit risks (continued)

## Recognition of capital and revenue grant income

G

**We identified some errors which resulted in reclassifications of grants within the comprehensive income and expenditure account**

Accounting for grant income can be complex as the basis for recognition in the accounts will depend on the scheme rules for each grant. This risk was identified because grant income is a material income stream to the Council (revenue and capital grants amounted to over £471m in 2011/12) and there is an element of professional judgement in determining whether certain grants have conditions or restrictions attached and whether those conditions or restrictions have been discharged.

### Deloitte response

We performed detailed testing on a sample of revenue and capital grants by reviewing correspondence attached to specific grants and comparing with the Council's accounting treatment.

Our testing identified two errors which, if corrected, would have an equal and opposite effect on income and expenditure but would have no net impact on the net cost of services. The first of these (amounting to £2,728k) was where a grant was ring-fenced and so should have been allocated to a particular directorate on the face of the comprehensive income and expenditure statement (Adult social Care in this case) but was instead incorrectly classified as a non-specific grant. The second (£442k) was where a condition was present within three grants but the disclosure in the comprehensive income and expenditure statement was incorrect; the Council correctly recognised a creditor for the amount unspent at the end of the year, but the other side of this entry was posted as expenditure. The correct entry would have been to reverse the recognition of income which had not yet been spent. These adjustments have been corrected by management. Additional testing was performed to identify whether further errors of this type were present and none were identified.

We also identified two disclosure deficiencies relating to grants which have been corrected by management relating to disaggregation of the Dedicated Schools Grant (DSG) and to show an additional in-year adjustment to the DSG grant.

Other than the issues noted above, our testing was satisfactory.

## Housing Revenue Account self-financing settlement payment

G

**We did not identify any issues from our testing of the HRA self financing settlement**

On 28 March 2012 the Council made a one-off payment of £192m to central government as part of the move towards self-financing of Council housing stock. The Council has funded this payment through loans from the Public Works Loan Board (PWLB).

We identified this as a risk because of the size of the balances involved and that it was an unusual transaction.

### Deloitte response

Guidance on accounting for this transaction was provided in Local Authority Accounting Panel ("LAAP") bulletin number 92 from CIPFA. We tested the entries posted by the Council and confirmed that they were in accordance with LAAP 92. We also agreed the amount to the Department for Communities and Local Government's ("DCLG") publication, The Housing Revenue Account Self-financing Determinations. No issues were identified from our testing.

We have tested the disclosure of the loans entered into in the year and consider the disclosure to be appropriate.

# 1. Significant audit risks (continued)

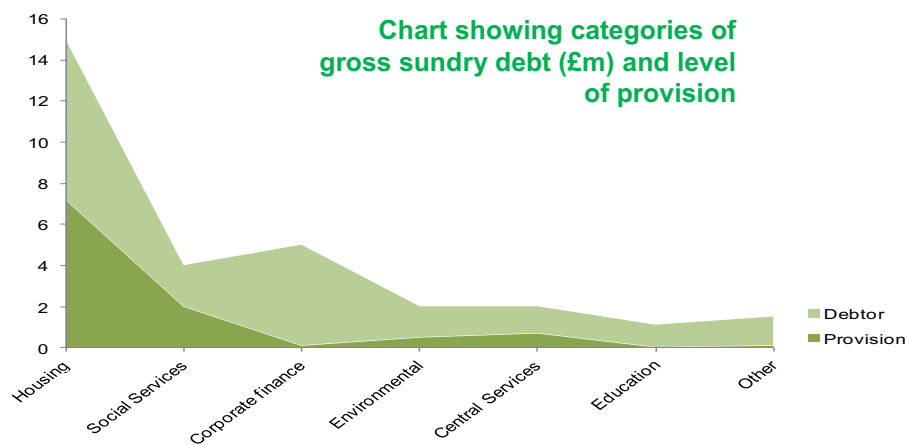
## Completeness of bad debt provision for sundry debt

6

We consider the level of bad debt provision for sundry debt to be materially accurate

The sundry debt provision was identified as a significant risk because it comprises of different types of debt, each of which have different methodologies for calculating the level of provision required. Provisions are judgemental by nature but should be based on sound assumptions and methodology.

The total sundry debtors balance at 31 March 2012 of £26m includes a prepayment balance of £1.4m. As our significant risk was concerned with the level of provision for this category of debt, we have omitted prepayments from our analysis and so will refer to a gross debtor of £24.6m. The corresponding balance for the prior year is £21.5m.



### Deloitte response

Within sundry debtors there are two types of debt (housing and social services) which attract significant provisions, as the Council deems these debts to have a higher risk of recovery. We tested the reasonableness of these two types of debt provisions by reviewing the cash recovery of 2010/11 debt and comparing to the level of provision held in the prior and current year. Along with information obtained from testing the recoverability and cash recovery of current year debtors, we have used this information to gauge whether we consider the level of provision to be materially reasonable.

The 2011/12 gross balance for housing and social services debt is £14.4m with a provision of £9.3m. If prior year cash recovery rates were to remain the same, we would expect a provision of £8.0m, a difference of £1.3m when compared to the current year provision. Therefore, we consider the provision for housing benefit and social care debt to be prudent, but also materially reasonable based on historic cash recovery rates.

Other sundry debtors include other commercial debts within directorates and some small debts relating to council tax and NNDR costs of collection. The total of these debts for 2011/12 is £10.3m with a provision of £1.3m. This debtor balance includes a VAT debtor of £4.4m which we have seen evidence of being settled post year end. The remaining balances are provided for based on age of debt and/or perceived risk of recovery. Removing the VAT debtor (on the basis that this was settled shortly after year end and is not a balance we would expect to be provided for), leaves a revised gross debtor of £5.9m against which there is a provision of £1.3m. We did not identify any issues from testing this debt and do not consider the remaining provision, or the exposure to present a risk of material misstatement.

We therefore conclude that the level of provision for sundry debt is materially reasonable.

# 1. Significant audit risks (continued)

## Recording of capital spend

A

**We identified an adjustment of £0.5m which has not been corrected by management**

We identified a risk around the recording of capital and revenue expenditure because capital expenditure is significant and there is an element of interpretation in determining what constitutes revenue and capital expenditure.

In 2011/12 the Council spent £46.8m on new assets, of which £8m was on council dwellings.

### Deloitte response

We tested the risk of misclassification of capital expenditure in two ways:

1. sample testing of repairs and maintenance expenditure which had been classified as revenue; and
2. sample testing of capital additions within fixed assets.

Our testing identified several inconsistencies of treatment with expenditure relating to council dwellings and the housing revenue account: one example being lifts where some spend had been treated as capital but other as revenue.

We requested that management undertake an exercise to determine whether certain categories of spend should be treated as capital or revenue, and as a result of this exercise, to determine whether an adjustment might be required.

Management performed this work, which we reviewed and sample tested for accuracy. The outcome is a proposed adjustment of £494k which, if accepted, would increase the fixed asset balance but have no net impact on the housing revenue account surplus. Management has not made this adjustment on the grounds that it is not material.



As part of this testing, another error was identified relating to the classification of specific assets. The Council currently categorises expenditure on lifts and replacement boilers under the fixed asset category of council dwellings. We consider that these particular assets would be separate components to the Council dwellings that they form part of, and, as such, would be more suitably categorised as plant and equipment. This would mean that they would have separate useful economic lives and be valued at historic cost rather than the current council dwellings basis of a moderated existing use value.

Management has not made this adjustment in the current year as it does not consider it to be material but has agreed to consider this difference in classification going forward.

# 1. Significant audit risks (continued)

## Accounting for schools

6

**We consider the Council's accounting treatment relating to the changing status of schools to be appropriate**

We identified a risk relating to the changing status of schools, notably those moving from community and foundation status to academy status, and the appropriate accounting treatment for such schools in the Council's accounts.

Only one school moved from community status to academy status (the Willows school) during the financial year. Part of this arrangement involves the schools signing a 125 year lease for the school land and property. The Council previously recognised community school assets on the balance sheet and so has treated this as a fixed asset disposal in the accounts resulting in a loss on disposal of £2.7m. Two further community schools changed to academy status after the balance sheet date. These have been disclosed in the notes to the accounts as a non-adjusting event after the balance sheet date.

13 foundation schools moved to academy status in the year. Foundation schools' assets are not held on the Council's balance sheet and so there was no disposal to recognise. However, we did see the effect of the foundation school change with a fall in DSG grant income and non-pay and pay expenditure.

### Deloitte response

We reviewed the Council's treatment of all categories of schools and considered against available CIPFA guidance. We obtained the Council's listing and categorisation of schools and corroborated the completeness of this listing by agreeing to independent sources such as Edubase.

We consider the Council's treatment of the Willows school lease to be appropriate based on the guidance available. We also agree with the treatment and disclosure, of community schools that have changed to academy status after year end, as a non-adjusting event.

# 1. Significant audit risks (continued)

## Management override of key controls

G

**We consider some of managements judgements to be prudent**

International standards on auditing require us to presume a significant risk in relation to manual override of key controls. Our audit work is designed to test the manual override of key controls and the significant estimates and judgements used by management.

### Deloitte response

In testing journals, we made use of computer assisted audit techniques to analyse the whole population of journals and to identify those which had features which can be indicators of fraud. We tested these journals and did not identify any issues to report to you.

Key accounting judgements have been reported in this document as separate significant risks, notably the valuation of fixed assets, the valuation of the pension liability and the bad debt provision estimate. Our testing concluded satisfactorily in each of these individual areas.

However, we do highlight to the committee that taken together, the Council does show consistent examples of prudence in its application of judgement as can be seen in the table below:

	← Acceptable range →									
<b>Pension liability</b>							✓	✓		
<b>Asset revaluation</b>						✓	✓			
<b>Debt provisioning</b>							✓	✓		
<b>Housing benefit provisioning</b>								✓	✓	
<b>Icelandic investment</b>						✓	✓			

✓ Current year    ✓ Prior year

We have included the housing benefit provision in the table above because we have identified this as a misstatement in Appendix 1 on the basis that we do not consider it to meet the accounting definition of a provision.

We have also included the Council's treatment of Icelandic investments in the table; the 2011/12 year LAAP Bulletin 82 v6 highlighted expected improvements to recovery rates of investments in certain Icelandic banks, including those held by the authority. Application of those recovery rates would have reduced the level of impairment the Council has applied to investments held. The Council has chosen not to apply these rates on the basis of current economic uncertainty within the eurozone, foreign currency exchange rates and fluctuating asset values. We consider the Council's approach to be prudent but within an acceptable range.

Aside from the housing benefit provision, which we have identified as a judgemental misstatement in Appendix 1, we consider management's application of judgements to be materially reasonable and did not identify any instances where the business rationale was not clear.

## 2. Value for money conclusion

Our value for money conclusion is based on the following criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We have performed procedures to meet the criteria noted above using guidance from the Audit Commission.

We undertook a risk assessment to identify potential risks to the value for money conclusion. From this work we identified two potential risks which we investigated further. These potential risks, and our conclusions as to why we did not consider them to be significant risks to our value for money conclusion, are noted below:

- Capital forecasting: we identified that capital budgeting and forecasting included several significant variances during the year. We considered this to indicate a potential risk of weaknesses in financial controls. Our work did not identify any significant weaknesses in the capital control procedures but did highlight that management should consider reviewing the forecasting process to ensure more accurate reporting. We have identified a recommendation in this area below.
- Control over construction projects: we identified this as a potential risk on the basis that there are governance issues highlighted in the Council's draft Annual Governance Statement relating to construction projects. Our investigations into these matters concluded that management were taking steps to address capital procurement and capital reporting issues and so proper arrangements were in place.
- Classification of revenue and capital spend: our testing of repairs and maintenance revenue expenditure and fixed asset additions identified inconsistency of treatment. The details of these errors are further described in section 1 but we considered that this could present a potential VFM risk as it could be suggestive of weak internal controls. Our work identified a limited number of categories of assets which had been inconsistently treated. The proposed adjustment was not material and we have made a control recommendation to management which has been accepted. On this basis we did not consider it to be a significant risk to our value for money conclusion.

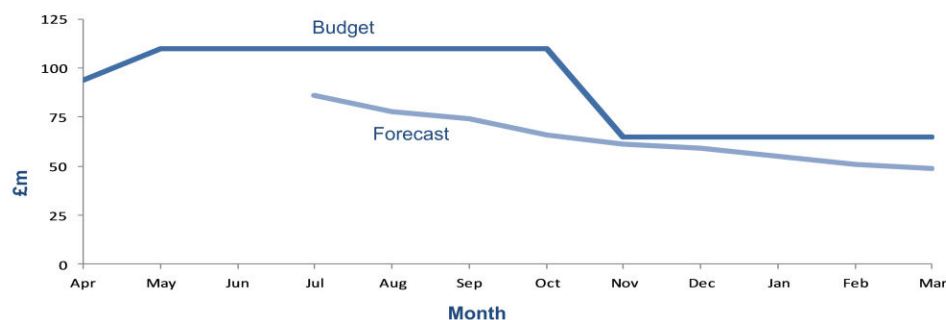
On the following page we have identified two recommendations from our value for money work. We do not consider these matters to present a material issue with respect to our value for money conclusion.

## 2. Value for money conclusion (continued)

### Capital budgeting and forecasting

#### Description

During the 2011/12 year, the Council's capital budget was amended twice. Forecast expenditure (the expected expenditure for the whole financial year) reduced consistently each month. Final recorded capital expenditure for the 2011/12 financial year was £49m, which is £16m lower than the revised budget and £45m lower than the original budget. This is summarised in the chart below:



The chart above shows that budgeted spend, and forecast spend, which should be based on more recent information, is not being achieved.

#### Recommendation

We understand that the nature of the Council's capital plans means that projects can span over a period of greater than one year and so there will always be some variation between actual and budgeted spend. However, we recommend that the Council reviews the capital budgeting and forecasting process with an aim to achieving more accurate forecasting.

If the Council is unable to plan or forecast capital spend accurately then future significant variances could occur that mean either resources are not adequate, or that service delivery is impacted by failure to deliver capital projects within time limits.

#### Management response

The Capital budget is set in February and adjusted in month two for re-phased amounts following the previous year's outturn. It is re-phased again once more certainty around timing and scope are ascertained. The programme contains two very large programmes (Primary School Places and Supported Housing) that are constantly evolving in line with requirement projections and hence re-phasing of budgets into following years is inevitable and often desirable. In addition the budget contains many schemes that are Programmes of Works or items of a contingent nature for which the Council would aim to minimise expenditure. Stringent controls are in place for the release of capital and all monitoring is undertaken on a 'whole' project basis over at least three years and not just focussed on the current financial year.

## 2. Value for money conclusion (continued)

### Evidence of achieving savings for Reablement project

**Description** As part of our value for money procedures, we selected two of the largest individual savings projects for review. We focused specifically on evidencing the source and detail of savings plans and saving achievements. For one of the projects selected, RE1 Reablement, the planned saving for the 2011/12 year was £1,278k and this amount was recorded as being achieved.

We understand that this is a cross-cutting project which involves a number of sub-divisions, and that the Reablement project as a whole is larger than the specific project we selected. However, there was only limited evidence available to support the achieved savings and most of this was indirect. To illustrate this, we have provided more information on the evidence provided to support the savings and why we consider its use to be of only limited use:

Evidence provided by management	Deloitte response
Analysis showing actual and expected numbers of residential and nursing starters and leavers from 2008/9 to 2012/13.	This information shows an overall net reduction of clients in the system when comparing 2010/11 data with 2011/12 data. However, this is not triangulated with financial information, nor does it show how many starters and leavers were in the original savings plan.
Adult social care outturn did not call on the entire contingency included in the budget showing that some savings must have been achieved.	This shows that the full amount of the contingency was not required for adult social care. However, the fact that the contingency was required suggests that the initial adult social care budget was not met. It is not clear how much the RE1 Reablement project contributed towards this position.
Analysis of Reablement cost centre codes which shows year on year expenditure falling.	This information shows evidence of a trend in actual spend year-on-year. However, it is not clear how much of this trend is all or partly due to the RE1 Reablement project or any other pressures.

Our testing of another large project did not identify any issues around clarity of savings.

**Recommendation** Taken as a whole, we can see how management has concluded that this saving was achieved. However, we consider the evidence provided to be more circumstantial than a clear and direct quantification of savings achieved.

Going forward we recommend that at the planning stage of projects the Council considers the detail of exactly how the achievement of savings will be tracked and measured during and at the completion stage of projects. Reviewers of project plans should challenge those preparing them by asking how success or failure will be measured and how other related pressures can be distinguished.

**Management response** The specific savings initiative examined here is one of the most complex savings proposals within the Council's savings plans. Work is being undertaken within Finance to put in place measures to better understand all savings proposals to enable better tracking of both savings and wider benefits. Following a review of existing Social Care finance models work has commenced on developing revised models which will enable the impact of initiatives such as Reablement to be better captured and quantified. It is planned, that once developed, the methodology used to build these models will be adapted for use across the council for all demand led budgets.



# 3. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you on 28 February 2012.

## Key controls over significant risks

In Section 1 we discussed the identified significant audit risks. For each significant audit risk, we have assessed the design and implementation of internal controls in each of those areas. Our findings are set out below.

Council controls in operation	Deloitte procedures on controls	
<p><b>Revaluation of properties</b></p> <p>The valuation of assets is undertaken in-house by the Council's internal valuer. The Council's corporate finance team reviews the valuations and challenges unexpected movements.</p>	<p>We have considered the competence of the in-house valuer and corroborated the role that corporate finance plays in reviewing the valuations that take place.</p>	G
<p><b>Valuation of the gross pension liability</b></p> <p>The Council engages actuaries to value the pension liability. Corporate finance engages with the actuary to discuss and challenge the assumptions being made.</p>	<p>We have considered the competence of the actuarial support and corroborated the role that Corporate finance plays in reviewing the assumptions and valuations that take place.</p>	G
<p><b>Recognition of capital and revenue grant income</b></p> <p>Specific training is provided to staff regarding grant accounting to ensure appropriate treatment. Grant treatment is reviewed by Corporate Finance.</p>	<p>We obtained evidence of management review and corroborated that training is provided to staff.</p>	G
<p><b>Bad debt provision for sundry debt</b></p> <p>Provisions are calculated according to type of debt. Provisions are calculated by directorates. They are then reviewed by the head accountant within that directorate before being reviewed centrally by corporate finance.</p>	<p>We reviewed the bad debt provision working papers to identify whether these procedures were in operation.</p>	G
<p><b>Housing Revenue Account settlement</b></p> <p>The HRA settlement, and financing, was discussed at Council and Cabinet level. Management have reviewed the LAAP bulletin to ensure appropriate treatment.</p>	<p>We corroborated management's awareness of the LAAP bulletin and saw evidence of consideration at Council and Cabinet level.</p>	G
<p><b>Recording of capital spend</b></p> <p>Several checks are in place around capital requisitioning and reporting including detailed monthly reviews at directorate level.</p>	<p>We did not identify issues in application from our planning, but did identify some inconsistencies in treatment from our detailed testing and have included a recommendation for improvement on the following page.</p>	A
<p><b>Accounting for schools</b></p> <p>Management has set out how it accounts for each type of school. It also has a record of when schools are expected to change status. The proposed treatment is reviewed by Corporate Finance.</p>	<p>We reviewed the schools listing provided by management and corroborated to independent sources. We reviewed management's proposed treatment.</p>	G
<p><b>Management override of controls</b></p> <p>Management is aware of key controls and judgements and has detailed these in the accounting policies. Hierarchical controls are in place with journals.</p>	<p>We considered the key judgements highlighted by management and tested the design and implementation of controls around manual journals.</p>	G

G No issues noted    
 Y Satisfactory – minor observations only    
 A Requires improvement    
 R Significant improvement required

# 3. Risk management and internal control systems (continued)

## Risk management and control observations

In addition to the recommendations provided in relation to our value for money conclusion, we also identified a number of control observations, the most significant of which are detailed below.

### Revenue and capital expenditure classification

<b>Description</b>	Our testing identified several examples of inconsistent treatment of capital and revenue expenditure, particularly relating to council dwellings. We understand that inconsistencies occurred because of a lack of clarity around what the Council interprets as revenue and capital expenditure and potentially because of the volume of transactions being transferred.
<b>Recommendation</b>	<p>The Council undertook an analysis of specific categories of assets to determine whether they should be recognised as revenue or capital expenditure. We recommend that this analysis be developed further and distributed to relevant accountants and estates staff to use as a practical guide when expenditure is incurred.</p> <p>Furthermore, we recommend that the assessment of revenue and capital expenditure is undertaken at the time the expenditure is recorded, rather than as a year-end exercise.</p>
<b>Management response</b>	<p>Management accepts this recommendation but notes significant 'grey areas' around works to Council dwellings. The valuation process of these assets (25% Social Housing) and the resource accounting treatment for the Major Repairs Allowance (MRA) further confounds such categorisation with the latter giving rise to the need for a year end exercise.</p> <p>Management have drawn up and agreed a general set of principles to apply to expenditure to determine its correct treatment. It should be noted that regardless of revenue or capital categorisation, both are financed in year from revenue resources.</p>
<b>Timeframe:</b>	March 2013
<b>Owner:</b>	Maqsood Sheikh

### 3. Risk management and internal control systems (continued)

#### Depreciation policy for infrastructure assets

**Description**

The infrastructure category of property, plant and equipment includes a range of assets such as road foundations, road surfacing, street lighting and bridges. The Council adopts a policy of depreciating all infrastructure assets over a period of 40 years regardless of the type of asset.

The different types of asset within this category will have different useful economic lives and so a blanket depreciation policy of 40 years is not as accurate as it could be. We note that we have performed procedures from which we have concluded that the current treatment does not materially misstate this balance.

We highlight that plans are underway to change the way in which infrastructure assets are valued with CIPFA having published a Code of Practice on Transport Infrastructure assets. This Code of Practice has not yet been adopted into the IFRS based Code although information on the Council's valuation under this new guidance has been prepared and is submitted to central government through the Whole of Government Accounts (WGA) return.

**Recommendation**

We recommend that management categorises the different infrastructure assets and selects appropriate useful economic lives over which to depreciate them.

**Management response**

Management acknowledges the rather simplistic depreciation policy currently in use for infrastructure but notes that the only balances held represent historical cost of works that have been capitalised i.e. such values do not represent a replacement cost valuation and it would therefore be impossible to categorise in detail the historic values held.

The introduction of the Code will provide a basis for valuation. Management will then adopt a depreciation policy in line with this.

**Timeframe:** On introduction of the Infrastructure Code

**Owner:** Harry Lawson

## 4. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Independence confirmation	
<b>We confirm our independence</b>	<p>We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.</p> <p>If the audit committee wishes to discuss matters relating to our independence, we would be happy to arrange this.</p>

Fees	
<b>Our audit fee for the year ended 31 March 2012 was £345,150</b>	<p>Our audit fee for the year ended 31 March 2012 was £345,150 (2010/11 £359,155). This fee covers the audit of the accounts, the assurance report on the whole of government accounts (WGA) and the procedures we are required to perform to reach our value for money conclusion.</p> <p>This fee is in line with the scale fee set by the Audit Commission. It excludes the fee for the audit of the local government pension scheme, which is communicated to you as part of a separate report. It also excludes fees for the certification of grant claims. Our procedures in respect of grants are ongoing but we have provided information on costs incurred to date in Appendix 2.</p>

Non-audit services	
<b>We have provided some non-audit services to the Council in 2011/12 but do not consider this to compromise our independence as auditors</b>	<p>In our audit plan issued to you on 28 February 2012 we reported that one of our divisions, Drivers Jonas Deloitte, was successful in its proposal to monitor the delivery of a building contract for the expansion of six primary schools. The total fees payable for 2011/12 in relation to this work was £242,231. Of this, £177,808 was retained by Drivers Jonas Deloitte, with £64,423 being paid to subcontractors.</p> <p>We do not consider this to compromise our independence as external auditors to the Council. We have also received approval from the Audit Commission to undertake this work.</p>

Liaison with internal audit	
<b>Our review of internal audit work did not identify any areas where we need to adjust our approach</b>	<p>Following an assessment of the independence and competence of the internal audit department, we reviewed the findings of internal audit. There were no areas where we needed to adjust our audit approach as a result.</p>

Written representations	
<b>We have attached a copy of the proposed management representation letter to this report</b>	<p>A copy of the representation letter to be signed on behalf of the Council has been attached at Appendix 3. Non-standard representations have been highlighted.</p>

## 5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you as an appendix to our audit plan issued on 28 February 2012 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Council and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



### **Deloitte LLP**

Chartered Accountants

St Albans  
12 September 2012

# Appendix 1: Audit adjustments

## Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report:

		Charge / (credit) to current year Comprehensive Income and Expenditure Statement	Increase/ (decrease) in Net assets	Decrease/ (increase) in Unusable Reserves
		£'000	£'000	£'000
<b>Judgemental misstatements</b>				
<b>Net effect of capital / revenue expenditure misclassification (HRA)</b>	<b>1</b>	-	494	(494)
<b>Reclassification of capital expenditure</b>	<b>2</b>			
- Council dwellings		-	(3,282)	-
- Plant and equipment		-	3,282	-
<b>Housing benefit provision</b>	<b>3</b>	(1,162)	1,162	-
		<u>(1,162)</u>	<u>1,656</u>	<u>(494)</u>

We will obtain written representations from management confirming that, after considering all unadjusted items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

- 1 & 2** Testing identified several inconsistencies in recording capital and revenue expenditure. The reserves balance affected would be the Capital Adjustment Account. Further details are included in our reporting on significant risks in Section 1.
- 3** The Council has recognised a provision against a potential clawback relating to the housing benefit grant. We do not consider this to meet the required criteria for a provision and so have proposed that it is released.

We only report to you uncorrected misstatements that are not clearly trivial. We have identified our clearly trivial level as £391,000.

# Appendix 1: Audit adjustments (continued)

## Recorded audit adjustments

We report all individual identified recorded audit adjustments in excess of £391,000 and other identified misstatements in aggregate adjusted by management in the table below.

### General fund

		Charge / (credit) to current year Comprehensive Income and Expenditure Statement	Increase/ (decrease) in Net assets	Decrease/ (increase) Reserves
		£'000	£'000	£'0 00
<b><u>Factual misstatements</u></b>				
<b>Reclassification of debtor balances</b>	<b>1</b>			
- Government departments debtors		-	5,979	-
- Sundry debtors		-	(5,979)	-
<b>Reclassification of grants</b>	<b>2</b>			
- Government ringfenced grants		(2,286)	-	-
- Taxation and non-specific grant income		2,728	-	-
- Cost of services		(442)	-	-
<b>Reclassification of creditors</b>				
- Sundry creditors	<b>1</b>	-	1,646	-
- Government department creditors		-	(1,646)	-
		-	-	-
		-	-	-

- 1 Testing identified classification errors within debtors and creditors.
- 2 Testing identified classification errors within grants. This is discussed further in our significant risks at Section 1.

# Appendix 1: Audit adjustments (continued)

## Recorded audit adjustments (continued)

### Collection fund

		Charge / (credit) to current year Collection fund	Increase/ (decrease) in Net assets	Decrease/ (increase) Reserves
		£'000	£'000	£'0 00
<b>Factual misstatements</b>				
<b>Timing of information for income from business ratepayers</b>				
- Income collectable from business ratepayers	1	1,349	-	-
- Business rates expenditure		(1,349)	-	-
		-	-	-
		-	-	-

- 1 This adjustment arose as a result of the timing difference between the preparation of the accounts and the final NNDR 3 grant return. The date that the Collection Fund is prepared for the draft financial statements is before the date of the final submission of the NNDR 3 claim. At the time of preparing the accounts the Council used the best estimate available at the time. With the benefit of hindsight we have identified that this figure changed in the final return and so management have reflected this.

### Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas, up to the date of this report, which we have concluded are not material but would like to bring to the attention of the audit committee.

Disclosure	Detail
<b>Housing benefit provision</b>	The Council has included a provision relating to housing benefit. We have included this in the table of uncorrected misstatements on the previous page. As management does not intend to adjust for this proposed misstatement we consider it necessary to highlight that the current disclosure suggests that there was no opening provision at the beginning of the year. There was an opening provision but in the prior year this was included within creditors and not provisions. The Council has not made this adjustment.
<b>Disclosure of assets in the property, plant and equipment note</b>	Our testing of the note for property, plant and equipment identified some errors in the recording of revaluation of assets and the effect of these revaluations on accumulated depreciation and the revaluation reserve. The presence of these errors means that it is not possible to reconcile the property, plant and equipment note to other notes in the accounts such as the movements in the revaluation reserve or the note covering revaluation losses. We highlight that this has no overall impact on the balance sheet. Management has not adjusted this but has agreed to review this in the 2012/13 financial year.
<b>Heritage assets</b>	Our testing of the completeness of the new requirement to identify and disclose heritage assets identified one asset, a Norman mound, which has not been disclosed by the Council. We consider this to meet the definition of a heritage asset as it is a historical tangible asset which is held and maintained principally for its contribution to knowledge and culture. The Code recognises that where heritage assets have not been recently purchased or capitalised, and a valuation cannot be obtained at a cost which is commensurate with the benefits to the users of the financial statements, the asset should not be recognised in the Council's balance sheet. However, a description of the asset should be disclosed in the notes to the Council's financial statements. The Council has not disclosed this asset in the note covering heritage assets on the basis that this disclosure is not material.



# Appendix 2: Fees charged during the period

The professional fees earned by Deloitte in the period from 1 April 2011 to 31 March 2012 are as follows:

	2011/12 £	2010/11 £
Fees payable to the auditor for the audit of the London Borough of Hillingdon's annual accounts, assurance report on the whole of government return and value for money conclusion	345,150	359,155
Fees payable to the auditor for the audit of the London Borough of Hillingdon's pension scheme annual report	36,500	36,500
	<hr/>	<hr/>
	381,650	395,655
Fees payable to the auditor for the certification of grant claims ( <b>Note 1</b> )	120,000*	210,071
	<hr/>	<hr/>
<b>Total fees for audit services (excluding VAT) (Note 3)</b>	<u>501,650</u>	<u>605,726</u>
<b>Non-audit fees:</b>		
Drivers Jonas Deloitte contract monitoring engagement ( <b>Note 2</b> )	177,808	-

**Note 1\*** Our fees for grant certification work are billed on the basis of time spent by different grades of staff using scale fees advised by the Audit Commission. The level of fees charged in a given year is dependent on the grant schemes falling within the audit requirement, the scope of procedures agreed between the Audit Commission and the grant paying body, the quality of working papers provided to us and the timeliness with which audit queries are resolved. Our work in respect of the certification of grants for 2011/12 is ongoing and the amount shown above is based on the work we have completed to date and our best estimate of the work we are still yet to perform. We have regular dialogue with officers to keep them informed of progress for this work.

**Note 2** In our audit plan issued to you on 28 February 2012 we reported that one of our divisions, Drivers Jonas Deloitte, was successful in its proposal to monitor the delivery of a building contract for the expansion of six primary schools. The total fees payable for 2011/12 in relation to this work was £242,231. Of this, £177,808 was retained by Drivers Jonas Deloitte, with £64,423 being paid to subcontractors.

We do not consider this to compromise our independence as external auditor to the Council and we have also received approval from the Audit Commission to undertake this work.

**Note 3** The draft financial statements for the year ended 31 March 2012 report external audit fees of £348k and fees payable for grant claims of £185k to report total external audit costs of £533k. This differs to the total reported above for three reasons; firstly, the Council has not included the external audit cost of the pension fund (£36.5k) as this is borne by the pension fund itself and so disclosed separately; secondly, the Council included an estimate of grant fees at the time of preparing the financial statements which is £65k higher than the estimate we have included above which is based on more up-to-date information; and finally, the Council's fees for external audit reported in the notes to the accounts are £3k higher than we have reported above due to coding of invoices. We do not consider the total difference to be material to the accounts.

# Appendix 3: Draft representation letter

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Hillingdon for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of London Borough of Hillingdon at 31 March 2012 and of the results of its operations, other comprehensive income and expenditure and its cash flows for the year then ended in accordance with the applicable accounting framework and Accounts and Audit Regulations 2003 (as amended).

We acknowledge our responsibilities for preparing the financial statements for the London Borough of Hillingdon ("the local authority") which present fairly the results for the period and for making accurate representations to you. For the avoidance of doubt the representations made in this letter apply to the financial statements of the local authority. Those financial statements include the London Borough of Hillingdon Pension Scheme Financial Statements. Therefore this letter applies equally to both the financial statements of the London Borough of Hillingdon and the financial statements of the London Borough of Hillingdon Pension Scheme.

We confirm, to the best of our knowledge and belief, the following representations.

## *Financial statements*

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. The effects of uncorrected misstatements and disclosure deficiencies reported in Appendix 1 are immaterial, both individually and in aggregate, to the financial statements as a whole.
8. We are not aware of events or changes in circumstances occurring during the period which indicates that the carrying amount of fixed assets or may not be recoverable.
9. The methods and assumptions used to determine fair values in the context of the applicable financial reporting framework are appropriate and have been applied consistently.
10. We have reconsidered the remaining useful lives of the infrastructure assets and confirm that the present rates of depreciation are appropriate to amortise the cost less residual value over the remaining useful lives.\*

## Appendix 3: Draft representation letter (continued)

11. Except as disclosed in the Statement of Accounts, as at 31 March 2012 there were no significant capital commitments contracted for by the local authority.
12. We confirm that in our opinion the bad debt provision policy currently in place reflects our best estimate and is considered to be adequate but not excessive.\*
13. We consider that our current policy for depreciation of fixed assets takes into account the guidance in the Code regarding componentisation of assets.\*
14. We consider that our categorisation of fixed assets is materially reasonable.\*
15. We confirm that the disclosures made in the Statement of Accounts in respect of Heritage assets represent a complete disclosure of the existence of assets which fall within the scope of Heritage assets under The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12, and our most accurate available information on the valuation of these assets.\*
16. The annual governance statement is representative, to the best of our knowledge, of the activities and performance of the local authority in the financial year.
17. We consider the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.

### *Information provided*

18. We have provided you with all relevant information and access.
19. All minutes of member and officers meetings during and since the financial year have been made available to you.
20. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
21. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
22. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
23. We are not aware of any fraud or suspected fraud that affects the entity and involves:
  - (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.
24. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
25. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements
26. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

## Appendix 3: Draft representation letter (continued)

27. We have considered all claims against the Council and on the basis of legal advice have provided for the amount. No other claims in connection with litigation have been or are expected to be received. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
28. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
29. We are not aware of any events or changes in circumstances occurring during the period which indicate that the carrying value of fixed assets may not be recoverable.
30. We confirm that:
- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
  - all settlements and curtailments have been identified and properly accounted for;
  - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
  - the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
  - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
  - the amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the London Borough of Hillingdon

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\* denotes a non-standard representation.

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## **EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT And ACCOUNTS**

**Contact:** Nancy Leroux  
**Telephone:** 01895 250353

### **SUMMARY**

The attached report summarises the findings of the External Auditor on the audit of the 2011/12 Pension Fund Annual Report and Accounts. The report is in draft pending the conclusion of the audit. It is expected the audit will be largely complete by the time the committee meets and a verbal update on the final outcome will be given at the meeting.

The auditor has indicated that it is expected that an unmodified opinion will be given on the Pension fund statements by 30 September 2012.

### **RECOMMENDATIONS**

**To note the auditor's findings and to approve the Annual Report of the Pension Fund.**

### **BACKGROUND**

1. The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.
2. The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).
3. The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, Deloitte LLP, which must be completed by 30 September 2012.
4. Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Annual Report requires the approval of Pensions Committee. This report will also be taken to Pensions Committee on 19 September 2012.

## **SCOPE OF THE EXTERNAL AUDIT**

5. Auditors are required to communicate to elected Members matters of governance that arise from the audit of the financial statements. These cover, in addition to an update on the audit status:
  - Key audit risks
  - Identified misstatements
  - Accounting and internal control systems
  - Current Accounting and Regulatory Issues
6. In addition, the Auditor requires a “Representation Letter” to be signed by management and the Committee. The contents of this letter are set out at Appendix 1 to the attached Deloitte report. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

## **COMMENT ON THE CONTENTS OF THE REPORT**

7. The report gives a comprehensive account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. The report is positive and there were no audit adjustments to report.
8. In relation to accounting and internal control systems, Deloitte have made one recommendation to implement an additional review as part of the closing process for the financial statements of the Private Equity Funds and that Committee are asked to consider any issues arising. Management has agreed with the intention of the recommendation and will review through the Investment Sub Committee on an annual basis. The issue is discussed in Section 2 of the report.

## **FINANCIAL IMPLICATIONS**

The financial implications are contained within the body of the report

## **LEGAL IMPLICATIONS**

The legal implications are mentioned within the report.

## **BACKGROUND DOCUMENTS**

None

Audit Committee 20 September 2012  
PART I – MEMBERS, PUBLIC & PRESS



London Borough of  
Hillingdon

Report to the Pension  
Committee and Audit  
Committee on the year  
ended 31 March  
2012 Local Government  
Pension Fund Audit

Final Report

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# Executive summary

We have pleasure in setting out in this document our report to the Pension and Audit Committee's of the London Borough of Hillingdon for the year ended 31 March 2012 for discussion at the committee meetings scheduled for 19 September 2012 and 20 September 2012 respectively. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2012.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description	Detail
--------	-------------	--------

## Key findings on audit risks and other matters

**We have concluded satisfactorily on each of the key audit risks identified in our audit plan. We did not identify any additional risks in the course of our work.**

We discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2011/12 accounts, and which were presented to the Audit Committee in February 2012 as follows:

### Key risks

- Contributions:** The risk surrounding identification, calculation and payment of contributions, due to the complexities surrounding admitted bodies, has been addressed through our testing. No issues were noted with the exception of an incorrect classification of the contributions between employer deficit and employer normal contributions. As such an adjustment was posted increasing deficit contributions and decreasing normal contributions by £0.2 million;
- Benefits:** Complexities in the calculation of both benefits in retirement and ill health and death benefits have been reviewed during our testing with no issues identified;
- Financial instruments:** The unquoted investments have been agreed to independent returns from the investment managers. We identified that in one case the adjustment posted to the value of the private equity fund for LGT Partners had been included in the change in market value figure again during 2011/12 resulting in an over valuation of the assets held by LGT Partners. An adjustment was posted amounting to £467,000 to change in market value to reduce the valuation to bring it in line with the reported valuation from the custodian.  
  
We also continued to identify that some of the private equity funds audited financial statements included an emphasis of matter paragraph indicating the uncertainties over valuation of equities in illiquid markets. We have held discussions with the managers of these funds to ensure that the valuation techniques represent the most accurate fair value of the equities.
- Management Override of Controls:** all testing was completed with satisfactory results.

Section 1

# Executive summary (continued)

Status	Description	Detail
<b>Audit status</b>		
<p><b>Subject to the clearance of final points, we expect to issue an unmodified audit opinion on the financial statements.</b></p>	<p>We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan.</p> <p>We have substantially completed our audit in accordance with our Audit Plan which was presented to you prior to the commencement of the audit subject to the satisfactory completion of the matters set out below:</p> <ul style="list-style-type: none"> <li>• receipt of signed management representation letter (see appendix 1); and</li> <li>• update of post balance sheet event review.</li> </ul> <p>We will report to you verbally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.</p> <p>At the date of this report and subject to the satisfactory completion of the outstanding matters referred to above, there are no matters in relation to the Local Government Pension Fund information that would result in the issuance of a modified audit opinion.</p>	<p>N/A</p>
<b>Identified misstatements</b>		
<p><b>No uncorrected misstatements</b></p>	<p>Audit materiality was set at £7.5m (2010/11 £7.8m), which is consistent with that of the local government audit. The basis on which this is calculated is set out in our report to the audit committee.</p> <p>This is slightly higher than set out in the planning meeting report, which was based on a preliminary materiality for the Authority before the year end results were available, however we continue to report all unadjusted misstatements greater than £0.4m (2% of materiality) to the Audit and Pension Committees.</p> <p>There are no identified uncorrected misstatements above this level, and no qualitatively material misstatements that we wish to bring to your attention.</p>	<p>N/A</p>
<b>Accounting and internal control systems</b>		
<p><b>Review of underlying private equity funds</b></p>	<p>We have previously identified one area for improvement in relation to the internal control system. This improvement related to the review of the underlying private equity funds. We continue to recommend improvements in this area.</p> <p>Further detail on the area for improvement in the internal control system is included in Section 2 of the report.</p>	<p>Section 2</p>

# 1. Key audit risks

The results of our audit work on key audit risks are set out below:

## Contributions

### Audit risk

Unlike the positions in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, in view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.

### Deloitte response

We have performed the following testing to address the significant risks around contributions:

- reviewed the design and implementation of controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly;
- we have received from officers an analysis of contribution rates by employer and signed monthly statements from each Scheduled and Admitted body;
- we performed tests of details to test whether each material income stream was calculated in accordance with the actuarial valuation and schedule of rates; and
- we developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level.

It was noted that an incorrect allocation of the contributions was being disclosed in the fund account. As such £0.2 million was re-allocated to deficit funding from employer normal contributions. All other testing was completed with satisfactory results.

# 1. Key audit risks (continued)

## Benefits

### Audit risk

Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits which are in addition to the annual increases required by the 1997 Regulation and Pension (Increases) Act 1971.

### Deloitte response

The following tests were performed to address the significant risk around benefits:

- we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing to controls were in force during the year under review;
- we obtained a schedule of benefits paid and supporting calculations and tested whether benefits paid were in accordance with the appropriate rules;
- we performed tests of detail, on a sample of benefits paid, by agreement to supporting documentation, to test whether benefits were in all material respects correctly calculated, by reference to their qualifying service, Fund rules and benefit choices made; and
- we developed an expectation based on changes in membership numbers and pension increases to analytically review the benefits paid in the year.

All testing was completed with satisfactory results.

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# 1. Key audit risks (continued)

## Financial instruments

### Audit risk

The Fund makes some use of investments in unquoted investments vehicles, such as private equity houses.

Although these funds are normally subject to third party external audit, up to date audited accounts were not available at the time that the pension fund accounts were compiled and audited. In such cases, year end fair values of investments in such funds will need to be estimated on the basis of unaudited information. In addition, market volatility raises questions about how to value these investments. It would normally be expected that the reasonableness of the fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when there is a significant time period between the latest audited accounts and the fund year end.

As these investments are more complex to value we have identified the Fund's investments in property and pooled investment vehicles as a significant risk.

### Deloitte response

The following tests were performed to address the significant risk around investments:

- we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly;
- we have obtained a further understanding of the valuation of investments. The value of unquoted investments vehicles represents less than 6% (2011: 6%) of the assets of the Fund as a whole. The majority of the investments held by the Fund being in investments which have a quoted value;
- we have reconciled the total value of the investments held by the Fund as reported in the investment report from Northern Trust to the value of investments reported in the Net Assets Statement;
- we have compared the valuations provided by Northern Trust to the reports provided by the investment manager;
- we have performed a test of detail on a sample basis of quoted investment and compared the value reported by the Northern Trust to the quoted price obtained from Bloomberg, DataStream or other third party sources; and
- we have performed a test of detail on a sample basis of the unquoted pooled investments to the valuations received from the external investment managers.

We identified that in one case the adjustment posted in 2010/11 to the value of the private equity fund for LGT Partners had been included in the change in market value figure again during 2011/12 resulting in an over valuation of the assets held by LGT Partners. An adjustment was posted amounting to £467,000 to change in market value to reduce the valuation to bring it in line with the reported valuation from the custodian. as at 31 March 2012.

# 1. Key audit risks (continued)

## Financial instruments(continued)

### Deloitte response (continued)

In addition it was noted that the audited accounts for the LGT funds again contained modified opinions. The financial statements of the funds included an emphasis of matter paragraph over the valuation of the illiquid investments. We held discussions with the fund manager to satisfy ourselves that the values of the investments are unlikely to contain a material error. Our discussions included gaining a further understanding of the valuation process used and comparing this to the industry standard.

In line with the prior year additional disclosure has been included in the financial statements to give the users of the accounts better information on the risks surrounding this type of investment.

We continue to recommend that the committee annually review the funds audited accounts to satisfy themselves that the valuations provided are sufficiently accurate, see section 2.

Other than the above no issues were identified during our audit procedures.

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# 1. Key audit risks (continued)

## Management override of controls

**Audit risk** We are required by ISA 240 'The auditors responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of management override of the system of internal control

**Deloitte response** Our audit work included:

- we have reviewed analysis and supporting documentation for journal entries, key estimates and judgements;
- we have performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale;
- we have reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings;
- we have reviewed significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and
- we have made enquiries of those charged with governance as part of our planning and detailed audit processes.

All testing was completed with satisfactory results.

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## 2. Accounting and internal control systems

### Control observation

During the course of our audit we identified one area for improvement in the internal control system which is detailed below:

#### Review of private equity funds financial statements

<b>Observation</b>	Whilst an annual review process has been implemented to review the annual statements received from the private equity firms, there remains no procedure in place to complete a detailed review of the underlying private equity funds annual audited financial statements. It was again noted that the audit opinion on some of the funds was modified to include an emphasis of matter paragraph raising attention to the possibility the valuation may differ from that shown due to the illiquid market for these securities. This could lead to incorrect valuation of these funds in the pension scheme financial statements.
<b>Recommendation</b>	We recommend that a process is implemented to review annually the audited financial statements for all private equity funds. The committee should consider any issues identified by the auditors and the impact on the scheme should be assessed and disclosure included in the accounts to explain any uncertainties identified.
<b>Management response</b>	Management agree with the intention of the recommendation and will undertake an annual review through the Investment Sub Committee who meet at a time more suitable to the audit timetable.
<b>Owner</b>	Nancy LeRoux

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# 3. Current accounting and regulatory issues

## Upcoming financial reporting developments

For reference, the following developments in the pension industry may impact the governance arrangements and financial statements of the London Borough of Hillingdon. Whilst we appreciate that Local Government Pension Fund are not regulated by the Pensions Regulator we consider their guidance to be indicative of what is currently considered to be best practice in the pensions sector. In addition, whilst the Fund is not a company some information surrounding governance best practice may be of interest.

### **Governance Update - The FRC publishes guidance for Directors on the potential impact of increased country and currency risk on financial reports**

The Financial Reporting Council (FRC) has published 'An Update for Directors of Listed Companies: Responding to increased country and currency risk in financial reports'. Organisations are operating in uncertain and volatile times and country and/or currency risks have seen significant change in the last year. This update aims to support Directors in considering the impact of these risks on their annual reports and guide them in providing a balanced and understandable assessment of the organisation's position and prospects to stakeholders, who are likely to be paying particular attention to these risks and the organisation's response to them.

The update highlights the more significant issues Directors and Audit Committees may wish to use as a starting point in considering the possible implications of the current economic uncertainties to their business. These include:

- exposure to country risk both through financial instruments and exposure to third party providers;
- the impact of austerity measures being implemented in many countries on the entity's forecasts, impairment reviews, assessment of going concern etc;
- consequences of currency events not factored into forecasts but that may nevertheless impact reported disclosures and sensitivity testing of impairment and going concern considerations; and
- whether there is a post balance sheet event requiring disclosure to avoid misleading stakeholders.

# 3. Current accounting and regulatory issues (continued)

## The new LGPS 2014 project

On 22 December an agreement reached by the Local Government Association (LGA) and local government unions on how to take forward the future reform of the Local Government Pension Scheme (LGPS) in England and Wales was accepted by the Government. The agreement consists of:

- A set of principles covering:
  - The design of a new LGPS.
  - The future management and cost of the scheme.
  - Governance of the LGPS.
    - A timetable for implementing the new scheme by April 2014.
    - A project outline for managing the process of agreeing, by April 2012, the 'big ticket' elements of the new scheme.

During April 2012, following the acceptance by Government of a principles document submitted by the Local Government Association, UNISON and GMB on how to take forward the reform of the Local Government Pension Scheme (LGPS) in England and Wales, a project has been set up to reach agreement on the elements of the new scheme together with the management and governance of the scheme going forward.

Further information is available at:

<http://www.lgps.org.uk/lge/core/page.do?pageld=15431012>

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# 3. Current accounting and regulatory issues (continued)

## Pension Schemes and VAT

Despite VAT's establishment as a common, harmonised tax system, there is currently no uniformity across the EU for pension fund management. EU VAT law allows Member States to define a list of "Special Investment Funds" or "SIFS" which can be exempt from VAT. Some Member States treat all pension fund management as taxable (on the basis that pension funds are not SIFS), some as all exempt (as SIFS), with a whole spectrum of positions in between. The UK treats pension fund management as a fully taxable service which is subject to VAT at the standard rate (currently 20%). As a result of this, the majority of pension funds have been incurring significant irrecoverable VAT costs on pension fund management. There are currently two cases reviewing the VAT liability of pension fund management, these are:

- **Wheels**, looks to challenge whether the UK is lawful in excluding occupational defined benefit schemes from the VAT exemption. Questions have been referred to the CJEU which should provide clarification around the VAT liability of this service.
- **Fiscale**, is looking to make a wider challenge by questioning whether the management of all pension funds would come within the VAT exemption of SIF management. Questions have not yet been referred to CJEU. However, we expect this to happen shortly.

Where these cases are successful and it is deemed that VAT should never have been charged on pension fund management fees there will be an opportunity for pension funds to recover this VAT which has been overpaid from their investment managers. Therefore, the key point is for a pension funds to ensure it has protected its position by engaging in discussions with its various pension fund managers (as the VAT claim lies with the pension fund manager as the entity that charged VAT and paid this to HMRC). The pension fund needs to check to ensure its pension fund manager has submitted a claim, and continues to submit claims, which covers all relevant periods.

To date, as UK VAT law caps VAT claims to **just four years**, pension funds have been requesting their pension fund managers to submit claims as soon as possible to stop any earlier periods from "falling out of time". However, following the recent CJEU case of *Banca Antoniana*, there could potentially be scope for pension funds to request repayment of overpaid VAT for periods beyond the four year cap, and that the pension fund manager can claim this cost from HMRC to the extent it is not covered by the UK's capped period. However, HMRC have not yet confirmed how they will implement this judgement into UK VAT law and so it is advised that pension funds continue to engage in discussions with its pension fund managers to submit claims

## 4. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

<b>Independence</b>	<p>We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.</p> <p>If the Audit or Pension Committee's wishes to discuss matters relating to our independence, we would be happy to arrange this.</p>
<b>Non-audit services</b>	<p>We are not aware of any inconsistencies between APB Revised Ethical Standards for Auditors and the Administering Authority's policy for the supply of non audit services or of any apparent breach of that policy.</p> <p>Fees payable to the auditors for the audit of the annual accounts of the London Borough of Hillingdon (excluding VAT) have been provided to the audit committee in the report covering the local authority.</p> <p>Our fee is consistent with the scale fee determined by the Audit Commission.</p>
<b>International Standards on Auditing (UK and Ireland)</b>	<p>We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.</p>
<b>Liaison with internal audit</b>	<p>The Audit team, following an assessment of the independence and competence of the internal auditor, reviewed the findings of internal audits to inform the risk assessment and considered the impact on our audit approach.</p> <p>No adjustments were made to the audit approach as a result of our review of the work of internal audit.</p>
<b>Written representations</b>	<p>A copy of the representation letter to be signed on behalf of the Authority is attached at Appendix 1.</p>
<b>Relationships</b>	<p>There are no relationships (including the provision of non-audit services) we have with the London Borough of Hillingdon, its trustees and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.</p>

## 5. Responsibility statement

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Council by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Audit Commission. Responsibilities for the adequacy and appropriateness of these methodologies and the data rest with the Audit Commission. The audit may also include reviews such as this report which address locally determined risks and issues the scope of which is agreed with management in advance of the work. In this case it is for management to determine whether the scope is adequate and appropriate to their needs.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Pension Fund's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

We view this report as part of our service to you for corporate governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

### **Deloitte LLP**

Chartered Accountants  
St Albans  
07 September 2012

# Appendix 1: Draft representation letter

Deloitte LLP

*Our Ref:* MGB/HB/2012

*Date:*

Dear Sirs

## **London Borough of Hillingdon Pension Fund (the “Fund”)**

This representation letter is provided in connection with your audit of the financial statements of the Fund for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Fund, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011, the financial transactions of the Pension Fund during the year ended 31 March 2012, and the amount and disposition of the Fund’s asset and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the Fund year.

We acknowledge as members of London Borough of Hillingdon Council our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Fund involving:
  - (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.
5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund’s financial statements communicated by members, former members, employers, regulators or others.
6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.



7. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.
8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fund and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice – Financial Reports of Pension Funds (revised May 2007) (“Pensions SORP 2007”) or other requirements.
9. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund’s ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
10. You have been informed of all changes to the Fund rules during the year and up to the current date.
11. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund’s financial statements.
12. No claims in connection with litigation have been or are expected to be received.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
14. There have been no events subsequent to 31 March 2012 which require adjustment of or disclosure in the financial statements or notes thereto.
15. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.
16. The pension Fund accounts and related notes are free from material misstatements, including omissions.
17. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
18. The Fund has satisfactory title to all assets.
19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
20. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequently.
21. We confirm that:
  - all retirement benefits and Funds, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
  - all settlements and curtailments have been identified and properly accounted for;

- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
  - the actuarial assumptions underlying the valuation of the Fund liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
  - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
  - the amounts included in the financial statements derived from the work of the actuary are appropriate.
22. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.
23. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Fund (Administration) Regulations 2008 and related guidance.
24. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2012 is complete, accurate and consistent with the information that is contained within the Accounts.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of the Fund (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of London Borough of Hillingdon

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## DELOITTE - ANNUAL AUDIT LETTER - DRAFT

**Contact Officer:** Paul Whaymand  
**Telephone:** 01895 556074

***Note: This report has previously come to Audit Committee in December, following the completion of Deloitte's work. However, this year the Audit Commission has brought forward the submission date to 26 October 2012. As there is not another Audit Committee scheduled prior to then, a draft of the report is being reported to this meeting.***

## SUMMARY

This is a covering report to Deloitte's Draft Annual Audit Letter which provides a summary of the expected conclusions from their audit work undertaken for the year ended 31 March 2012.

## RECOMMENDATIONS

**The Committee is asked to note the report and that a final version will be copied to them prior to submission to the Audit Commission.**

## INFORMATION

The letter identifies the key areas of Deloitte's work over the year, their findings in each area and the focus of their work going forward:

1. The Council's Financial Statements – it is planned to issue an unqualified opinion on the Council's accounts for the year ended 31 March 2012.
2. The Local Government Pension Scheme Annual Report – it is planned to issue an unqualified opinion on the information in the Council's pension scheme annual report for the year ended 31 March 2012.
3. Value for Money conclusion – it is planned to issue an unqualified opinion on the Council's arrangements for securing value for money during the year ended 31 March 2012.
4. Whole of Government Accounts – work is ongoing on the audit of the WGA and is expected to be completed by 5 October 2012.
5. Grants Certification – there will be a separate letter on grant certification issued to Audit Committee early in 2013.

## **LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

## **BACKGROUND PAPERS**

None

London Borough of  
Hillingdon

Annual Audit Letter to the  
Members of the Council  
for the year ended 31  
March 2012

DRAFT

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# Executive summary

We are required to provide an annual audit letter which reports our conclusions from the audit of the London Borough of Hillingdon ("the Council"). The deadline issued by the Audit Commission for finalising this letter has been brought forward in the current year to 26 October 2012. As this will be the last Audit Committee meeting prior to that deadline we have issued this draft for the consideration of the committee. We will re-issue this report once we have completed our audit procedures. This letter's main messages are:

<b>Financial statements</b>	The status of our audit is as expected at this stage in our audit plan. We have some minor procedures still ongoing. Assuming satisfactory completion of such matters, we plan to issue an unqualified opinion on the Council's accounts for the year ended 31 March 2012 before the 30 September 2012 deadline.
<b>The Council's local government pension scheme annual report</b>	We plan to issue an unqualified opinion on information in the Council's pension scheme annual report for the year ended 31 March 2012 before the 30 September 2012 deadline.
<b>Value for money conclusion</b>	We plan to issue an unqualified conclusion on the Council's arrangements for securing value for money during the year ended 31 March 2012 deadline.
<b>Whole of Government Accounts consolidation return</b>	Our work on the Whole of Government Accounts (WGA) is in progress. We expect to complete our work on this by the deadline of 5 October 2012.
<b>Grants</b>	We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders on compliance with aspects of the terms on which funds have been claimed. We will provide a separate, detailed letter to the Council in early 2013 on the outcome of this work, but at this point there are no matters which we consider need to be brought to your attention.

There are no individually significant recommendations which we wish to bring to Members' attention here.

# 1. Introduction

## **The purpose of this letter**

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money.

The Letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and should also be posted on the Council’s website.

## **Responsibilities of the Appointed Auditor and the Council and scope of our work**

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

We have been appointed as the Council’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (“the Code”). Under the Code, we review and report on:

- the Council financial statements;
- the Council’s local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion).

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

As an additional responsibility to those set out in the Code, we also undertake grant certification work on behalf of the Audit Commission.

## 2. Financial reporting

### **Key issues arising from the audit of the accounts**

We have issued a separate report for the year ended 31 March 2012, which details the findings from our audit of the financial statements and the Council's value for money arrangements.

In that report we explained how we focused our work on areas which involved more complex accounting judgements and estimation including:

- accounting for grant income;
- valuation of property;
- valuation of the local government pension fund liability;
- recording of capital and revenue expenditure; and
- adequacy of bad debt provision levels.

Our work on the recording of capital and revenue expenditure identified a proposed adjustment of £0.5m which, if corrected, would have increased the fixed assets balance but would have had no impact on the Housing Revenue Account (HRA) or the Comprehensive Income and Expenditure Statement. Management did not correct this amount because they considered it to be immaterial but have agreed to review the accounting for such items going forward.

We did not identify any significant issues in the remaining areas but highlight that, whilst we consider management's judgements to be reasonable, taken together they are at the more prudent end of a range we consider to be acceptable.

Our report also discussed certain significant transactions and disclosures in the accounts. In particular we tested the accounting treatment of schools which were changing to academy status, and the significant HRA self-financing settlement of £192m. We concurred with the treatment of these items in the financial statements.

Our report to the Audit Committee also included some recommendations to assist with future financial control and reporting. These recommendations were in respect of the classification of revenue and capital expenditure, the depreciation policy for infrastructure assets, capital forecasting, and the ability to evidence financial savings, particularly for one of the largest individual projects called Reablement.

### **Key issues arising from the audit of the pension scheme accounts within the pension scheme annual report**

We have reported separately to the Audit Committee in respect of the work we performed on the pension scheme. We plan to issue an unqualified opinion on the pension scheme accounts within the pension scheme annual report.

### **Whole of Government Accounts**

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice 2010 to review and report on the whole of government accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

Our work on this is in progress and we expect to issue our opinion in advance of the deadline of 5 October 2012. We will issue our certificate closing the audit as a whole once this has been done.

# 3. Value for money conclusion

## The scope of our work

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Our conclusion is given in relation to the following criteria specified by the Audit Commission:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2012
<b>The organisation has proper arrangements in place for securing financial resilience.</b>	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
<b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on the our responsibilities;
- any work mandated by the Commission – of which there was none in 2011/12; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge our responsibilities.

## Risk assessment

We undertook a risk assessment to identify potential risks to the value for money conclusion. Based on this work, we did not identify any areas which we considered as presenting a significant risk to our VFM conclusion.

## Overall conclusion

On the basis of the work performed, we confirmed our preliminary assessment that there were no risks which required us to carry out other locally determined work and we plan to issue an unqualified VFM conclusion.

## 4. Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by Central Government or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for agreeing certification arrangements with the respective grant-giving bodies, principally government departments. The appointed auditor carries out work on individual claims as an agent of the Commission under these arrangements which comprise certification instructions which the auditor must follow.

Our programme is in progress at the time of writing. We will issue a separate Annual Audit Letter in respect of the grants programme in early 2013, following the completion of the programme. At this point there are no matters which we consider need to be brought to your attention.

## 5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in February 2012 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Council and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



### **Deloitte LLP**

Chartered Accountants  
St Albans

Issued in draft on 12 September 2012

# Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2011 to 31 March 2012 are as follows:

	2011/12 £	2010/11 £
Fees payable to the auditor for the audit of the London Borough of Hillingdon's annual accounts, assurance report on the whole of government return and value for money conclusion	345,150	359,155
Fees payable to the auditor for the audit of the London Borough of Hillingdon's pension scheme annual report	36,500	36,500
	<hr/>	<hr/>
	381,650	395,655
Fees payable to the auditor for the certification of grant claims ( <b>Note 1</b> )	120,000	210,071
	<hr/>	<hr/>
<b>Total fees for audit services (excluding VAT) (Note 3)</b>	<u>501,650</u>	<u>605,726</u>
<b>Non-audit fees:</b>		
Drivers Jonas Deloitte contract monitoring engagement ( <b>Note 2</b> )	177,808	-

**Note 1** Our fees for grant certification work are billed on the basis of time spent by different grades of staff using scale fees advised by the Audit Commission. The level of fees charged in a given year is dependent on the grant schemes falling within the audit requirement, the scope of procedures agreed between the Audit Commission and the grant paying body, the quality of working papers provided to us and the timeliness with which audit queries are resolved. Our work in respect of the certification of grants for 2011/12 is ongoing and the amount shown above is based on the work we have completed to date and our best estimate of the work we are still yet to perform. We have regular dialogue with officers to keep them informed of progress for this work.

**Note 2** In our audit plan issued to you on 28 February 2012 we reported that one of our divisions, Drivers Jonas Deloitte, was successful in its proposal to monitor the delivery of a building contract for the expansion of six primary schools. The total fees payable for 2011/12 in relation to this work was £242,231. Of this, £177,808 was retained by Drivers Jonas Deloitte, with £64,423 being paid to subcontractors.

We do not consider this to compromise our independence as external auditor to the Council and we have also received approval from the Audit Commission to undertake this work.

**Note 3** The draft financial statements for the year ended 31 March 2012 report external audit fees of £348k and fees payable for grant claims of £185k to report total external audit costs of £533k. This differs to the total reported above for three reasons; firstly, the Council has not included the external audit cost of the pension fund (£36.5k) as this is borne by the pension fund itself and so disclosed separately; secondly, the Council included an estimate of grant fees at the time of preparing the financial statements which is £65k higher than the estimate we have included above which is based on more up-to-date information; and finally, the Council's fees for external audit reported in the notes to the accounts are £3k higher than we have reported above due to coding of invoices. We do not consider the total difference to be material to the accounts.

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## INTERNAL AUDIT PROGRESS REPORT

Contact Officer: Helen Taylor  
Telephone: 01895 556132

### REASON FOR ITEM

This report provides the Audit Committee with a summary of Internal Audit (IA) activity in the period from 1 June 2012 to 31 August 2012. This fulfils the requirements of CIPFA's Code of Practice for Internal Audit in Local Government to bring to Members' attention periodic reports on progress against planned activity and any implications arising from Internal Audit findings and opinions.

The report also satisfies the Audit Commission requirements to keep Members adequately informed of the work undertaken by Internal Audit and of any problems or issues arising from audits.

### OPTIONS AVAILABLE TO THE COMMITTEE

To note progress against the Internal Audit Plan for 2012-13 and the updated position of those audits undertaken in the years 2009-10 2010-11 and 2011-12.

### 1. INFORMATION

1.1. In addition to the Annual Report, the Head of Internal Audit produces interim reports to Officers and Members throughout the year. These are approximately quarterly, summarise progress to date and bring to the attention of members any issues of note.

### 2. Resources

2.1. Recruitment to The School's Auditor post was successful and the new appointee started on 10 September 2012. One new trainee has resigned with effect from December 2012 and recruitment is about to start for a replacement for January 2013.

### 3. Progress against Plan and Follow up Status

3.1. During the period, five completed audits received Limited Assurance, all relating to 2011-12. Three received Satisfactory Assurance. An advisory review of the project implementing cloud computing was also undertaken.

3.2. Insufficient 2012-13 audits have been completed at this stage for me to be able to form a view on the likely contents of my annual opinion.

3.3. The current status of the 2012-3 plan is included in Appendix 1.

3.4. The progress and status of those audits carried out in, 2011-12 2010-11 and 2009-10 is included in Appendices 2, 3 and 4.

3.5. Two further Audits have been added to the plan for 2012-13;  
**Building Maintenance (Statutory requirements)** – At the request of the department  
**Housing Repairs** – Following discussions with the Leader of the Council.

3.6. Two investigations were opened but not progressed. Number 61 related to the cloning of a school's purchase card. This was dealt with by liaison with the police and banks and treated as advice and guidance. Number 62 was opened but it was decided to address the issue as part of an audit so all time was transferred to that job and the investigation code was closed.

3.7. Summaries of the outcomes of the audits completed in the period are provided below:

3.8. Unless otherwise stated, all reports have an action plan agreed with internal audit.

**Audit Title: IT Security & Data Handling Controls in Schools**  
**Assurance level: Limited**

Nationally, data loss incidents are increasing in number and significance each year and have included a number of high profile losses of data by central and local government organisations. Such incidents are not only costly, but damaging in terms of an organisation's reputation. There is an increasing requirement for improved controls over both static data and data in transit. Mobile devices such as laptops and removable media are invaluable to modern, business working practices. However, they carry an increased risk of data loss.

An audit of the Information Technology Security & Data Handling Controls in those schools that the Council is responsible for was undertaken as part of the approved internal audit periodic plan for 2011/12. The aim was to ascertain the adequacy of the control environment within schools and identify what specific actions the Council needs to take in terms of providing support and guidance to help schools comply with Data Protection.

A report was produced and provided to each school visited, and an overarching report was produced making recommendations which the Council needed to address.

We were pleased to report risks are appropriately addressed in these areas:

- All schools sampled had registered with the Information Commissioners Office (ICO), reducing the risk of penalties from

the ICO for not stating how personal data is processed within the school.

- Schools within our sample had Acceptable User Policies in place for staff and students to sign, reducing the risk that users with access to the network are not aware of their responsibilities in relation to information security which could increase the risk of breaches of data confidentiality.
- IT Asset registers are in place and maintained, reducing the risk of hardware and software not being accounted for.
- Schools have segregated their network to restrict staff and student access to reduce the risk of unauthorised access to sensitive information.
- Schools have implemented reporting procedures for Information Security losses and breaches reducing the risk that breaches are not reported or investigated and increasing the likelihood that necessary actions are taken to prevent similar incidents recurring.
- Backup arrangements have been designed and documented within the schools reducing the risk of schools not being able to perform system restoration or experiencing unavailability of systems.

Improvements are needed to address risks in the following areas:

<b>Control Improvements</b>	<b>Risk</b>	<b>Agreed Target Date</b>
For those schools that the Council is responsible for, senior management in PEECS should clarify whether schools should adopt the Council's Data Protection policy or whether they should develop their own. This will ensure schools put in place an up to date, documented and approved Data Protection Policy in place.	Medium	August 2012
A formal process should be established for the identification of new, or changes to existing processing of personal data. This will ensure the data schools have registered with the ICO remains up to date.	Medium	Implemented
Schools should develop and approve documented procedures for subject access requests. This will ensure any subject access requests are dealt with consistently.	Medium	August 2012
Risk assessments should be carried out on a regular basis to identify the data kept within the	Medium	August 2012

schools and the risks to data. To ensure that the risks to data can be identified and effective controls can be implemented to mitigate the risks.

Schools should implement stronger password controls for staff to ensure there is no unauthorised access network. Medium Implemented

Regular training should be provided to all staff and offered to Governors with access to the school's network. This will ensure that staff and Governors are aware of their responsibilities. Medium Implemented

A clear procedure should be formally defined with clear roles and responsibilities for the disposal of IT hardware and storage. This will ensure that computer equipment and media is disposed of securely. Medium Implemented

Schools should document a data retention policy/schedule. This will ensure that personal information is not retained for longer than necessary. Medium Implemented

#### **Management Comment**

Guidance on how schools can improve the control environment was coordinated with the Data Protection Officer, ICT Security & Compliance Officer, Learning & Development, HGFL Management and Governors Support. This was sent to each of the schools reviewed and will be further disseminated through respective newsletters and training events provided.

#### **Audit Title: New Years Green Lane Civic Amenity Site Weighbridge Assurance level: Limited**

In August 2011, disciplinary action was instigated against three Street Cleansing operatives who were suspected of disposing of non-Council waste via the weighbridge at New Years Green Lane (NYGL) Civic Amenity Site, for personal gain.

This audit follows on from an investigation carried out in 2011 where a Street Cleansing Team crew had undertaken unauthorised, private waste recovery which was disposed of at the New Years Green Lane Civic Amenity Site.

Investigation was precipitated by the Weighbridge Clerk having reported to management an occurrence of overloading of the crew's vehicle with waste for disposal.

The objective of the audit was to assess the adequacy of controls in place for the control of waste disposed of via the New Years Green Lane Civic Amenity Site.

The review primarily focussed on the work of the Street Cleansing Team.

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
When the weighbridge is used by Council vehicles, a weighbridge ticket should be produced without exception and retained to support the manual daily returns. Without tickets, the recordings are not evidenced and recording errors and fraud may go undetected.	High	November 2012
Street Cleansing Area Supervisors should be notified of daily waste disposals actioned by their staff at the New Year's Green Lane Civic Amenity Site in order that they can check the reasonableness of the number of visits made to the site, weight of waste disposed of and whether vehicle overloading is occurring. Without this information, management would be unaware of any anomalies. Without this, undue reliance would be placed on the Weighbridge Clerk to report this.	High	November 2012
Daily returns of weighbridge usage should record the registration number / fleet number of the vehicle otherwise management ability to monitor individual vehicle movements and refuse disposals at the New Year's Green Lane Civic Amenity Site is compromised.	High	November 2012
Street Cleansing Team vehicles should be weighed without persons being on-board at the time of weighbridge weighing before and after waste disposal. This would eliminate inconsistency in vehicle unladen weight and guard against incorrect calculation of waste load weights and deter fraudulent manipulation.	High	November 2012
Information on the Council intranet and website should be subject to regular review otherwise it may no longer be fit for purpose and misinform the reader.	Medium	August 2012
A barrier system should be installed at the New Years Green Lane Civic Amenity Site requiring office intervention to allow a vehicle to leave the site only once weighbridge weighing-out has been	Medium	November 2012

actioned, otherwise the system may be compromised by errors and omissions.

Street Cleansing crews should be instructed that they must get their vehicle weighed by the weighbridge following the disposal of waste at the New Years Green Lane Civic Amenity Site. Without this the weight of waste disposals may be inaccurate resulting in incorrect statistical information produced. Medium November 2012

Consideration should be given to upgrading the weighbridge at the New Years Green Lane Civic Amenity Site because it may no longer fulfil expectations and does not provide for requisite and easily accessible management information. Medium November 2012

There should be a formal risk assessment associated with the weighbridge to ensure that the health and safety of employees and the public is evidenced and any required actions promptly addressed. Medium Already implemented

A business continuity plan for the New Year's Green Lane Civic Amenity Site trade waste disposal function should be developed and tested to ensure resilience. Medium August 2012

#### **Management Comment**

With regards to the four areas noted as high risk – these have all been accounted for when the re-engineering work is complete and the site once again becomes fully operational. It is anticipated this will be mid-November 2012.

Some of the improvements presenting a medium risk have already been implemented and others will again be adopted when the site is fully operational.

#### **Audit Title: Passenger Services**

#### **Assurance level: Limited**

Passenger Services are responsible for providing transport for people including students with disabilities. It does not include fleet management.

The objective of the audit was to review the processes in place which ensure that passenger services are efficient, effective and economical.

We were pleased to report risks are appropriately addressed in these areas:

- Policy on services for Adult Social Services with disabilities
- Roles and responsibilities

- Appeals
- Contracts with service users
- Reporting on performance

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
The Passenger Transport Services Manager should ensure that policies and procedures are updated to reflect the Disability and Equality Act 2010. This will ensure all eligible SEN children receive a service.	High	Jan 2013
The Passenger Transport Services Manager should ensure all expired CRBs are renewed. This will ensure the council is carrying out its safeguarding responsibilities effectively.	High	Partially Implemented - to be completed by Aug 2012
The contact number for Passenger Services should be updated on all correspondence and sources of information provided to service users. This will ensure, in the event that a service user does not reach their destination, Passenger Services are notified in a timely manner to enable them to take action to locate the service user.	High	Implemented
The Passenger Transport Service Manager should ensure overtime claim forms are reviewed and authorised. This will ensure only justified claims are made.	High	Partially Implemented - to be completed in July 2012
The Passenger Transport Service Manager should ensure that paper driver licence is checked as part of the annual assessment and both the driver & assessor sign their portion of the assessment report. Without checking the driver's paper licence the assessor will not identify motoring offences which could indicate a high risk driver.	High	July 2012
The Passenger Transport Service Manager should finalise the Local Code of Practice for Drivers and Escorts, to ensure consistent practices and reduce confusion.	Medium	July 2012
Invoices for services provided to schools should be produced and sent to schools on a monthly basis. This will ensure the council receives income on a timely basis.	Medium	July 2012

**Management Comment**

Management actions have been agreed. Those recommendations highlighted as High have been addressed immediately and a partial implementation has been put in place. These actions will be monitored to ensure they are delivered to timetable.

**Audit Title: Food Health & Safety Team****Assurance level: Limited**

The Food Health and Safety Team ensure public health and safety by the registration and inspection of all food premises. The service also has responsibilities for the control of Infectious Disease, Health & Safety at Work and the Licensing and registration of various services provided to the public by traders.

The Food Health and Safety Team predominantly enforce regulations and takes actions in relation to food health and safety, and this is the main purpose of their role.

The objective of the audit was to ensure the adequacy of control arrangements operated by the Food Health and Safety Team so that there is compliance to statutory requirements and standards in relation to food.

We were pleased to report risks are appropriately addressed in these areas:

- Procedures
- Staff responsibilities
- Inspections and interventions
- Notices and enforcement

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
Regular monitoring should be undertaken by management to ensure that food business premises have a current risk rating in place, otherwise higher risk premises may not be priorities for inspection and poor food hygiene not recognised and detrimental to public health.	High	November 2012
A policy should be agreed for food law enforcement otherwise enforcement requirements may not be met because of unclear direction.	High	August 2012
Planned food premises interventions should be undertaken in order of their assessed risk priority so	High	Immediate



that those which are more likely to have food hygiene issues that pose a higher risk to public health are visited first.

There should be a review of the business continuity plan, to ensure that it remains fit for purpose and it should be regularly tested, otherwise it may not work and jeopardise continued service provision. Medium Immediate

Appropriate staff performance measures should be established that make reference to timescales for actions such as reporting of food inspection outcomes, re-inspections etc. These performance measures should be monitored otherwise there could be unreasonable time delays in actions taken by staff. Medium August 2012

Manager case review at the time of serving a Hygiene Improvement Notice should be clearly evidenced in writing otherwise there is no evidence that the case has been reviewed and any incorrect staff actions identified. Medium August 2012

Manager case quality checking of staff actions should be undertaken and evidenced at case conclusion to ensure that management expectations have been met. Medium December 2012

Pro-active checking and update of the Food Register should be undertaken regularly to ensure that it is accurate and complete. Premises found not to be recorded in the Register should be subject to prompt inspection otherwise public health may be put at risk. Medium December 2012

### **Management Comment**

Priority for the service remains outcomes based. The service management and staff will look towards opportunities provided by schemes such as the Food Hygiene Rating System (implemented in April 2012) and the BID transformation program to improve regulatory outcomes at the highest risk premises. Notwithstanding this, the importance of the audit recommendations are acknowledged and shall be prioritised. Further improvements for the service are identified in Service Plan.

Within current resources there is a risk of some slippage of actions against audit recommendations in the medium risk category.

A number of new processes are in progress and improvements are continuing set against a context of UK wide review of regulatory controls. There is some dependency on the outcome of these controls and of other council wide transformation projects that are outside Food Health and Safety Management Controls e.g. Pest Control, Technical Support and migration to Civica APP.

**Audit Title: Pupil Referral Unit**  
**Assurance level: Limited**

The Hillingdon Pupil Referral Unit, also known as Hillingdon Tuition Centre, works with children aged 11 years to 16 years.

The service aims to:

- provide full time education for all permanently excluded pupils
- support schools in preventing permanent exclusions by educating pupils for a period of time – ‘dual roll’
- educate pupils who have Statements of Special Educational Needs, who temporarily have no appropriate educational placement
- educate long term sick pupils and those in The Hillingdon Hospital, whilst they cannot return to school due to their medical condition
- contribute to the Council’s objectives of improving the life chances of Hillingdon children and improving educational achievement of all Hillingdon children.

The objective of the audit was to ensure that there is adequate control over income, expenditure and assets at the Hillingdon Tuition Centre.

We were pleased to report risks are appropriately addressed in these areas:

- Authority for using agency staff; teaching and non-teaching.
- Recharging of pupil placement cost
- Budget monitoring
- Private fund transaction recording

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
An appropriate private fund auditor needs to be appointed to undertake outstanding audits, otherwise the accuracy of fund accounts cannot be confirmed and errors/fraud may not be identified.	High	October 2012
Relevant assets need to be recorded in an inventory, security marked and subject to annual physical checking, otherwise the ownership and existence of the assets cannot be easily established and misappropriation of assets not identified.	High	October 2012
The charge rate for pupils placed in the Pupil Referral Unit should be reviewed regularly otherwise income may not be maximised and	High	April 2013

revenue lost.

All invoices received for agency staff used by the Pupil Referral Unit should be supported by certified timesheets and retained on file and appropriately cross referenced to the invoice. Without this incorrect payments could be made.	Medium	July 2012
Accounting records should be maintained on the basis of a financial year, otherwise monies might not be allocated to the correct accounting year resulting in incorrect final accounting.	Medium	June 2012
When orders are raised, the officer authorising the order should confirm and evidence checking that expenditure has received prior written approval. Without this, expenditure may not have been approved and evidenced.	Medium	June 2012
Key financial and non-financial processes should be documented otherwise inconsistency in action could result, with actions not taken in accordance with management expectations.	Medium	October 2012
Official receipts should be issued for cash income to evidence income received and that banking has been made intact.	Medium	September 2012

#### **Management Comment**

With regards to the 3 areas noted as high risk each of these has been comprehensively addressed and the change programme has been completed.

The site is now fully operational.

Regarding the 5 areas of medium risk again each of these recommendations is accepted and appropriate management actions taken to ensure complete compliance. This service area is fully operational and management are satisfied that areas identified by Audit have been addressed.

#### **Audit Title: Payments for Contingent Labour (on & off contract)**

#### **Assurance level: Satisfactory**

Contingent labour is the collective term for all workers within the council that are not directly employed through a contract of employment with the London Borough of Hillingdon. It includes:

- Agency workers
- Interim managers
- Supernumerary staff (outside of the organisational establishment)

- Consultants (through consultancy, agency or directly paid).
- Workers who directly invoice LBH for services

Contingent labour is provided by three contractors, Matrix SCM (professional/technical/administrative workers), Pulse (social care, unqualified workers) and ASAP Pertemps (manual workers). Off contract refers to individuals procured outside of the three agreed contractors.

The objective of the audit was to ensure that payments made for a sample of contingent labour were valid, accurate, timely and complete.

We are pleased to report risks are appropriately addressed in the following areas:

- A policy incorporating procedural information and management guidance is in place and accessible on Horizon;
- Pricing schedules are in place for on contract agencies;
- Agency workers are paid at the correct rate for the job they were performing;
- There is a process in place to monitor the use and cost of agency workers and compliance with the working time directive.

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed target date</b>
The timesheet completed by Escorts for the Passenger Transport Service should be redesigned. It should include a section that requires a senior officer to verify the hours worked by agency staff. This will ensure timesheets are checked and claims for more hours than those worked do not go undetected.	Medium	Immediate
Supervisors in Waste, Refuse & Recycling and Street Cleansing should initial amendments made to the daily operation rotas. This will ensure unauthorised amendments to staff rotas are not made.	Medium	Immediate
All Officers which use ASAP Pertemps for agency staff should request a copy of the e-invoice from the agency before it is sent to Corporate Payments to be processed for payment. This will ensure any fraudulent or overpayments can be ascertained and corrected and only valid payments are made.	Medium	Immediate

The Agency Workers and Contingent Labour policy should be updated to reflect the need for a timesheet/record to be maintained of hours worked by all agency workers. In addition, all timesheets should be signed by the claimant and their line manager. This will ensure in the event of a dispute there is an audit trail and claimants can be held accountable. Medium Immediate

**Audit Title: Leasehold Management & Service Charges**  
**Assurance level: Satisfactory**

The Leasehold Management Service currently manages a total of 2951 leasehold properties which have been bought under the Right to Buy Scheme (RTB). Leaseholders pay service charges and any costs incurred for major works. Charges for necessary works are apportioned according to rateable values.

I-World is the Council’s electronic property management system which holds leaseholder charges, payment, repairs information and records of arrears.

The objective of the audit was to ensure that Leasehold Management service is efficient, effective and economical.

We are pleased to report risks are appropriately addressed in the following areas:

- Performance Management
- Debt Recovery
- Service Charge Calculations and Consultations for qualifying long term agreements

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Dates</b>
On a monthly basis, the Head of Planned Works should obtain a list of leaseholder Invoices which have not been issued to the Leasehold Team. These should be discussed with the relevant officer, with a view to expediting resolution. This will ensure invoices are completed efficiently, and the council is recovering cost efficiently.	High	Immediate
When a property moves from rental to leasehold, leaseholder accounts should be set up within one month. This should be monitored, to ensure that money in the suspense account is cleared in a timely manner, and iWorld records are updated.	Medium	September 2012

The Neighbourhood Housing Services Manager should update the Leasehold Management Strategy to ensure a pertinent vision outlining what the service is trying to achieve, which is consistent with the Council's Strategic objectives.	Medium	October 2012
The methodology for calculating service charges should be fully documented. To ensure that a consistent approach is followed	Medium	September 2012
The RTB procedure note should be amended to clarify when costs of works should be charged to the new leaseholder, for work being carried out while the RTB application is underway. If there is no clarification then inconsistent practices will be adopted when new leaseholders refuse to pay for works.	Medium	September 2012

**Audit Title: Planning Enforcement – 2011/12 Review**  
**Assurance level: Satisfactory**

Planning Enforcement investigates possible breaches of planning regulations, as defined in the Town and Country Planning Act 1990, and aims to resolve these using the most appropriate means or action.

Investigations of possible breaches and planning enforcements at this council were originally carried out by a team based in the Planning, Environment, Education and Community Services (PEECS) group. As a result of a restructure in October 2010, that team was split into two groups.

The preliminary investigations of potential breaches were carried out by the Anti-Social Behaviour and Investigations Team (ASBIT) based in PEECS. Once the breach was established, and could not be mutually resolved by informal methods within the 21 days grace period allowed to the contraveners, the matter was referred to the Planning Enforcement Team, which was based in the Internal Audit and Enforcement section of the Central Services group.

Due to this change, an audit was requested to ensure that the arrangements and processes between the two teams, based in two separate groups, were satisfactory.

By the time this audit was completed, the directorates of both groups decided to re-amalgamate the two teams back into the PEECS group from July 2012. The current responsibility for this service therefore rests with the Head of Planning, Sports and Green Spaces in the PEECS group.

The objective of this audit was to provide management with an assurance that the systems and controls in place for investigating potential breaches of

planning control, resolving them in a timely manner and taking enforcement action where deemed necessary, were adequate and effective

We were pleased to note that management had reviewed the backlog of case files that had built up over a period of time, and agreed which cases should be pursued for further action and which should be closed down on the OCELLA system.

However, improvements were needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
If the old versions of the “Policy Statement” and the “Guide to Planning Enforcement” are still on the Council’s website, the Head of Planning Services should ensure that Corporate Communications immediately remove these documents from the website. If outdated information is featured on the website, members of the public may challenge, argue or raise further queries.	High	August 2012
The Head of Planning Services should ensure that the PADA reviews for all officers are brought up to date immediately, reflecting personal objectives and clear targets for 2012/13. If PADA reviews are not carried out half-yearly and targets are not set for the coming year, staff performance is more difficult to manage.	High	September 2012
The Appeal Inspector’s decisions should be evaluated to establish the reasons for the increase in the number of notices quashed or varied by the inspector, with the aim being to reduce those numbers. Without evaluating and monitoring the outcome of the Appeal Inspector’s decisions, lessons may not be learnt and the performance / achievements of Planning Enforcement Team may reflect poor.	High	November 2012
The Head of Planning Services in PEECS must ensure that the revised “Policy Statement” and the “Guide to Planning Enforcement” are finalised and featured on the Council’s website, Horizon and a shared drive as soon as possible. If the information published on the website does not reflect the policy and procedures currently adopted, members of the public may challenge, argue or raise further queries.	Medium	November 2012
The “Staff Operating Manual” for the Planning Enforcement Team should be finalised and issued to all relevant staff at the earliest opportunity. Without detailed documented guidelines or manual, there can be	Medium	November 2012

inconsistent practices amongst staff.

An adequate training programme should be arranged for staff to apply the operating manual in practice. Without adequate training, there can be inconsistent practices amongst staff.

Medium November 2012

The Head of Planning Services should seek advice from Corporate HR, if the job descriptions of officers whose role and responsibilities has changed. If the job description does not reflect what is anticipated from the employee, there can be implications / repercussions if any disciplinary action needs to be taken or the matter is referred to an industrial tribunal.

Medium November 2012

Until such time that OCELLA is fully developed, the Head of Planning Services should ensure that relevant management information is periodically produced from OCELLA and compared with the personal spreadsheets maintained by officers, to monitor their own progress and workload. Without proper monitoring, officers may become complacent and not progress cases promptly.

Medium October 2012

The Head of Planning Services should ensure that there is a formal evidence to support that the progress of workload allocated to each officer, including the achievement of targets set, is monitored. This also applies to officers in the Enforcement Team. Without any formal evidence of manager's monitoring involvement, it may appear that staff supervision is lacking.

Medium October 2012

The Head of Planning Services, in liaison with the system administrator in corporate ICT, should ensure that appropriate refresher training course/s are organised for all relevant officers who use the OCELLA system. There should also be a system in place to ensure that the officers follow the agreed protocol / procedures. Without appropriate training and knowledge, officers may not use OCELLA to its full potential or not follow the agreed protocol, and as a result they may not be able to carry out their duties effectively.

Medium October 2012

The Head of Planning Services should ensure that there is a close working relationship between all managers, officers and the system administrator in Corporate ICT who supports the OCELLA system. This could be in the

Medium November 2012



form of a working party, nominated by the Head of Planning Services, who should meet periodically to share their concerns, experiences etc. and monitor progress on enhancements for Ocella. Without a close working relationship amongst all interested parties, there is a tendency for complacency, lack of accountability amongst the officers and the full potential of the IT system may not be achieved.

The original wish list compiled in 2009 for enhancements required to the Ocella system should be reviewed, to establish whether those enhancements are still valid, and whether any new / additional requirements need to be added to that list to support the current working practices. Without constant review and effective communication amongst all interested parties, progress on developing an ideal IT system can be hampered and that may reflect on poor performance and service delivery.

Medium November 2012

All identified amendments, for the Ocella system, have either been included in the PEECS's current Single Development Plan (SDP) or Ocella To Do list. This exercise should be carried out in close liaison with the system administrator, to ensure that the requirements are practically achievable. Otherwise, the system users may become disillusioned.

Medium February 2013

### **Management Comment**

This service transferred to PEECS in July 2012, PADA's since that time have been up to date, and job descriptions will be reviewed as part of a forthcoming BID initiative.

### **Cloud Computing Advisory Review**

As part of the audit plan for 2011/12, RSM Tenon undertook, on our behalf, an advisory review of the proposed Google solution. The specific brief was to address the risk of;

- The solution failing to meet business needs and/or user requirements
- Loss of data confidentiality leading to unauthorised access to sensitive personal and business data.

Reviews of this type do not result in a formal assurance opinion.

The review concluded the following:

The Project Initiation Document (PID) was adequate in bringing together all of the key information needed to start and run the project on a sound basis.

The Council successfully tendered for a partner to enable it to migrate its desktop applications to a cloud based solution. The process complied with Council's tender procedures.

The tender evaluation and scoring matrix used to award the contract had been correctly completed and the contract for the provision of desktop services had been awarded to the correct tenderer.

The requirement for a geographic assured location for email data will require a clause to be added to the contract to ensure that the network complies with Government IL2 standards. This was being concluded at the time of the audit.

Although the tenderer was asked to provide a detailed implementation and risk plan, the council had addressed the high level risk of its Code of Connection accreditation by involving Communications Electronic Security Group (CESG) of the Government Communications Headquarters, GCHQ

The following observations were made:-

- The council's tender procedure requires and 80% price 20% quality criteria. The awarding of contracts heavily weighted towards price increases the risk that the solution delivered will not provide all the functionality required.
- A detailed risk analysis was not prepared but was included in the specification. Relying on a tenderer for this increases the chance that not all risks particular to the council will be identified.

Management comments on these observations were as follows;

- A minimum quality was required which would have excluded any tenders that did not meet these stringent criteria.
- This will be prepared for any future tender exercises

### **Schools' Audit**

No school audits were undertaken in the period. With the arrival of the new auditor there is sufficient resource to complete the schools' audit programme in the year.

## **4. Follow up Audits**

4.1. We continue to make progress in following up action points from previous audits

AUDIT TITLE	DATE ORIGINAL AUDIT ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED LOW		NOT IMPLEMENTED	NOT IMPLEMENTED	NOT IMPLEMENTED	REVISED TARGET DATE
Capital Online Payment System	Feb-12	2	2	1		2	2	1		0	0	0	N/A
Records Management	Jun-11	2	3	1		2	3	1		0	0	0	N/A
Cemeteries 2nd F-up	Sep-11	0	3	1		0	2	1		0	1	0	Dec-12
Housing Repairs Responsive	Feb-12	3	3	1		0	0	1		3	3	0	Aug-12
Safeguarding Adults (3rd f/up)	May-11	0	7	0		0	6	0		0	1	0	Dec-12
CRC - Energy Efficiency Scheme	Feb-12	5	1	0		1	1	0		4	0	0	Aug-12
Investigation 059	Feb-12	3	0	0		3	0	0		0	0	0	N/A
Tenancy Management	Nov-11	0	2	2		0	2	2		0	0	0	N/A
Critical Team	Nov-11	2	4	1		1	3	1		1	1	0	Dec-12
Fusion Contract Management	Jun-11	2	0	0		0	0	0		2	0	0	Dec-12
LGPS Governance (further f/up)	Sep-10	3	4	3		3	4	3		0	0	0	N/A
Parking Cash Collection 2nd F-up	Jun-11	1	0	1		1	0	1		0	0	0	N/A
Education Psychology	Mar-12	2	1	3		2	1	3		0	0	0	N/A
Asylum Accommodation 2nd F-up	Apr-10	0	3	0		0	0	0		0	3	0	Sep-12
Safeguarding Adults (4th f/up)	May-11	0	7	0		0	6	0		0	1	0	Dec-12
HH Responsive Repairs	Oct-10	1	0	0		0	0	0		1	0	0	Sep-12
Youth & Connexions	Oct-11	0	1	0		0	0	0		0	1	0	Mar-13
Council Tax & NNDR 2010/11 Review	Jul-11	1	11	0		1	10	0		0	1	0	Sep-12
Greenwich Leisure Contract 2nd F-UP	Feb-12	2	2	0		1	0	0		1	2	0	Nov-12
Minet Infants	Nov-11	0	2	2		0	1	2		0	1	0	Dec-12
Frithwood Primary	Nov-11	0	2	1		0	2	1		0	0	0	N/A
Hillside Infants	Jan-12	0	3	2		0	3	2		0	0	0	N/A
Ryefield Primary	Feb-12	0	2	2		0	2	2		0	0	0	N/A
Newham Junior	Nov-11	1	2	0		1	2	0		0	0	0	N/A
Whitehall Junior	Jun-11	2	1	1		2	0	1		0	1	0	Aug-12
Ruislip Gardens	Nov-11	0	2	0		0	2	0		0	0	0	N/A
Liquid Logic (ICT system)	May-11	0	2	0		0	0	0		0	2	0	Dec-12
Housing Needs	Apr-12	0	2	5		0	2	5		0	0	0	N/A
Street Lighting	Nov-11	1	3	0		0	1	0		0	3	0	Sep-12
ICT Oracle Debtors	Jul-11	0	1	0		0	0	0		0	1	0	Sep-

AUDIT TITLE	DATE ORIGINAL AUDIT ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED LOW		NOT IMPLEMENTED	NOT IMPLEMENTED	NOT IMPLEMENTED	REVISED TARGET DATE
													12
Fusion Contract Management	Jun-11	5	1	0		3	1	0		2	0	0	Sep-12
Highways Planned Maintenance 2009/10 Review	Jan-10	0	4	0		0	1	0		0	3	0	Sep-12
Improvement Projects 2010/11 Review	Jul-11	0	2	0		0	0	0		0	2	0	Sep-12
Fuel at Harlington Road Depot 2010/11 Review	Jan-12	4	9	0		3	8	0		1	1	0	Sep-12
Heathrow Imported Food Unit 2011/12 Review	Apr-12	0	8	0		0	4	0		0	4	0	Nov-12
General Ledger 2010/11	May-11	0	1	0		0	1	0		0	0	0	N/A
Fleet Management 2nd F-up	Feb-12	1	0	1		1	0	1		0	0	0	N/A
Culture & Arts F/up	Nov-10	2	0	0		1	0	0		1	0	0	Sep-12
Debtors	May-12	0	5	4		0	4	4		0	1	0	Oct-12
Passenger Services Audit F-Up	Jun-12	4	6	1		3	3	1		1	3	0	Oct-12
Housing Repairs Responsive	Feb-12	3	3	0		1	1	0		2	2	0	Apr-13
		<b>52</b>	<b>115</b>	<b>33</b>		<b>32</b>	<b>78</b>	<b>33</b>		<b>19</b>	<b>38</b>	<b>0</b>	
<b>% Implemented by Risk</b>						<b>62%</b>	<b>68%</b>	<b>100%</b>					
<b>Overall % Implemented</b>													<b>72%</b>
<b>Overall % Not Implemented</b>													<b>28%</b>

## 5. Anti-Fraud work – National Fraud Initiative

5.1. An NFI match earlier in the year revealed two possible cases of fraudulent identities by teachers in Hillingdon Schools. These were investigated by the Corporate Fraud team. One was found to have no substance but in one case the ID was found to be fraudulent. The teacher's contract was immediately terminated. She has recently pleaded guilty to ID fraud and sentencing is awaited. The team have worked closely with UK BA throughout and with Education and school colleagues.

### Fraud Awareness

5.2. We have recently updated our training session for managers and the first of the revised sessions will be delivered in September.

5.3. Twenty one staff have completed the on-line fraud training this year and 102 have enrolled but not yet completed the course. We will do a push on this in the next quarter.



Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
<b>CROSS CUTTING CORPORATE ISSUES</b>							
<b>Anti Fraud and Investigation</b>							
National Fraud Initiative (NFI)	Ongoing						
Fraud Awareness							
Fraud/Irregularity Investigations							
Planned proactive:							
Professional Fees	Finalised	23/4/12	N/A	May 2012	0	0	0
Employee Expenses	Planning						
Use of Purchase Cards	Drafting						
Single Tender Actions							
Compliance with Quotes & Tenders							
Council Tax Student Exemptions							
Succession Tenancies							
Bribery Framework – specific service							
Data Matches							
<b>Other Cross-Cutting</b>							
Annual Governance Statement - Audit	Completed						
Advice and Information (Ad hoc)							
Consultancy Advice - Specific Projects							
Employee Expenses - Automated Payments							
Insurance - Risk Mitigation							
Voluntary Organisations Support							
Supplier Viability							
Establishment Audits - to be determined							

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
<b>Misc Audit tasks</b>							
Follow ups	Ongoing						
Brought forward Audits	Ongoing						
<b>CENTRAL SERVICES</b>							
<b>Democratic Services</b>							
Registration Services							
<b>Finance</b>							
NNDR							
Value Added Tax							
Treasury Management							
<b>Human Resources</b>							
Personnel Records							
HR Operations Processing							
Sickness Absence	In progress						
Schools' HR	Planning						
Overtime and Standby Payments							
CRB and Professional Association Checks							
<b>Policy, Performance &amp; Partnerships</b>							
Performance Management							
<b>PLANNING, ENVIRONMENT, EDUCATION &amp; COMMUNITY SERVICES</b>							
<b>Corporate Property &amp; Construction</b>							
School Building - Project Mgt Phase 2							
<b>Education</b>							
Childrens' Centres							

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Music Service	Planning						
Rural Activites Garden Centre							
School Admissions Service							
<b>Schools - Primary</b>							
Belmore Primary							
Charville Primary							
Colham Manor Primary							
Cranford Park Primary							
Field End Junior							
Harlyn Primary							
Hayes Park Primary							
Hillingdon Primary							
Hillside Junior							
Pinkwell Primary							
William Byrd Primary							
Wood End Primary							
<b>Schools - Special</b>							
Chantry							
<b>Schools - Secondary</b>							
Abbotsfield							
Harlington Community							
Ruislip High School							
<b>ICT, Highways &amp; Business Services</b>							
CRC Efficiency Scheme	Completed data check	July 2012	N/A	N/A	0	0	0



Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Highways - Rhino Machines							
Harlington Road Depot - Fuel							
Energy Usage							
Facilities Mgt - Mechanical & Electrical	In progress						
<b>Planning, Sport &amp; Green Spaces</b>							
Mayoral Community Infrastructure Levy	Planning						
Trees - Compensation Claims							
Golf Courses	In progress						
Blue Badge Scheme	Planning						
<b>Public Safety</b>							
Investigations Team							
Public Safety Contracts							
Commercial Waste Collection	Drafting						
Waste Disposal - All Waste							
Libraries							
Licensing Services	Drafting						
Application Processing Team							
<b>Transportation &amp; Planning Policy</b>							
Chrysalis	Planning						
<b>SOCIAL CARE, HEALTH &amp; HOUSING</b>							
<b>Access &amp; Assessment</b>							
Self Directed Support							
Assessment & Care Mgt - Adults							
Mental Health Service	Planning						
<b>Children &amp; Families</b>							
Children's Placements							

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Looked After Children 21-25 Education	Planning						
Residential Services - Children							
Referral & Assessments - Children							
Youth Offending Service	Planning						
<b>Personalised Services</b>							
Homecare - External Provision	In progress						
Adult Care Scheme							
Disabilities Service - Adults							
Homecare In-House Provision							
<b>Commissioning, Contracts &amp; Supply</b>							
Contracts & Inspection Service - SCHH							
Brokerage - Social Services							
Commissioning Third Sector Providers	In progress						
<b>Other</b>							
Support to Carers	In progress						
<b>Housing Needs</b>							
Private Sector Housing							
HMO Licencing							
Housing Benefit Subsidy	In progress						
Empty Property Management	In progress						
Council House Aids & Adaptations							
<b>Housing Maintenance</b>							
Housing Services Major Works							
Housing Gas & Other Servicing Contracts							
Housing Stock Data	In progress						
<b>Housing Management</b>							

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
TeleCareLine							
Caravan Site							
Caretaking Services on Estates							
<b>ICT auditors - various - contractor</b>							
Disaster Recovery							
ICT Strategy							
Desktop Refresh Programme							
Web & Network Security							
Electronic Document Management - Setting up Storage and automatic deletion of records							
Onyx upgrade							
Technical Input							
<b>Contingency</b>							
Hillingdon Grid for Learning	Drafting						
Building Maintenance - Statutory Requirements	In progress						
Housing Repairs	Planning						
<b>Investigations</b>							
Investigation 061	Closed						
Investigation 062	Closed						
Investigation 063	In progress						

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
<b>CROSS CUTTING CORPORATE ISSUES</b>							
<b>Anti Fraud and Investigation</b>							
- Disabled Parking Bays	Finalised	07/11/11	N/A	August 2012 Revised date	0	1	2
- Mayoral Services	Finalised	22/8/11	Satisfactory	Nov 11 – Revised date Aug 2012	0	1	0
- Compliance with Driving Policy (Non council vehicles)	Finalised	24/05/12	N/A	Due Sep 2012	2	2	0
<b>CENTRAL SERVICES</b>							
<b>Finance</b>							
Creditors	Draft issued						
Debtors	Finalised	17/05/2012	Satisfactory	August 2012 Revised date October 2012	0	1	0
Capita On-Line Payments	Finalised	22/02/2012	Satisfactory	June 2012	0	0	0
<b>Human Resources</b>							
HR Payroll Changes & Trigger Dates	Finalised	02/05/2012	Satisfactory		0	7	0
<b>Audit &amp; Enforcement</b>							
Planning Enforcement (Back into PEECS)	Finalised	9/8/2012	Satisfactory		3	12	0
<b>SOCIAL CARE HEALTH &amp; HOUSING</b>							

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
<b>Adult &amp; Older People Services</b>							
Critical Team	Finalised	09/11/11	Satisfactory	August 2012 – Revised date Dec 2012	1	1	0
Self Directed Support	Drafting						
<b>Children's Social Services</b>							
Fostering	Draft issued						
Adoption	Draft issued						
Emergency Duty Team	Draft issued						
<b>Hillingdon Housing Services</b>							
Housing Repairs & Maintenance - Responsive	Finalised	30/11/2011	Limited	August 2012	2	2	0
Housing Repairs & Maintenance - Planned, including Major Works	Finalised	05/01/2012	Satisfactory	Followed up May 2012 revised date April 2013	0	1	0
Leasehold Management & Service Charges	Finalised	26/07/2012	Satisfactory	N/A	1	4	2
Tenancy Management	Finalised	23/11/11	Satisfactory	July 2012	0	0	0
<b>Housing</b>							
Housing Needs	Finalised	05/04/12	Full	August 2012	0	0	0
<b>PLANNING, EDUCATION &amp; SERVICES</b>							
<b>ENVIRONMENT, &amp; COMMUNITY SERVICES</b>							

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
<b>Street Environment</b>							
Street Lighting	Finalised	29/11/11	Limited	August 2012 Revised date September 2013	1	2	0
Highways - Reactive Maintenance	Drafting						
<b>Corporate Construction</b>							
School Building Programme - Permanent	Drafting						
School Building Programme - Temporary	Draft issued						
Construction Contracts - Final Accounts	Draft issued						
<b>Green Spaces, Sport &amp; Leisure</b>							
Greenwich Leisure Ltd Contract	Finalised	13/02/12	Limited	August 12 revised date November 12	1	2	0
<b>Transport Services</b>							
Fleet Management	Finalised	14/02/12	Limited	August 2012	0	0	0
Fuel at Harlington Road Depot	Finalised	24/01/12	Limited	Aug. 2012 – Revised date Sept. 2012	1	1	0
Stores at Harlington Road Depot	Draft issued						
<b>Property Services</b>							
Utilities Contracts - Water	Finalised	30/05/2012	Limited		3	0	1
<b>Consumer Protection</b>							
Food Health & Safety Services	Finalised	20/08/12	Limited	N/A	3	9	6

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
<b>Business Services</b>							
Heathrow Imported Food Unit	Finalised	4/4/12	Satisfactory	Aug. 2012 – revised date Nov. 2012	0	4	0
Passenger Services	Finalised	25/06/12	Limited	Aug 2012 revised date October 2012	1	3	0
Cemeteries	Finalised	12/09/11	Satisfactory	June 12 – revised date Dec 12	0	1	0
<b>ICT</b>							
Customer Contact Centre	Finalised	15/12/11	Satisfactory	May 2012 – revised date Aug 12	1	1	0
<b>Youth Services</b>							
Youth and Connexions Services	Finalised	7/10/11	Satisfactory	August 12 - Revised date March 13	0	1	0
<b>Other Education</b>							
Pupil Referral Unit	Finalised	20/07/12	Limited	N/A	3	7	3
Early Years Centres	Draft issued						
Education Psychology Service	Finalised	19/03/12	Satisfactory	Aug 2012	0	0	0
<b>Schools - Primary</b>							
Minet Infants	Finalised	16/11/11	Satisfactory	June 12 revised date Dec 12	0	1	0

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Firthwood Primary	Finalised	16/11/11	Satisfactory	June 12	0	0	0
Holy Trinity Primary	Finalised	29/03/2012	Satisfactory	In progress	0	4	2
Hillside Infants	Finalised	10/1/12	Satisfactory	June 2012	0	0	0
Hermitage Primary	Finalised	21/11/11	Satisfactory	In progress	0	4	0
Ryefield Primary	Finalised	9/2/12	Satisfactory	June 2012	0	0	0
Harmondsworth Primary	Finalised	16/1/12	Satisfactory	In progress	1	3	1
Newham Junior	Finalised	30/11/11	Satisfactory	June 12	0	0	0
Whitehall Junior	Finalised	29/06/2011	Satisfactory	In progress	0	1	0
Deansfield	Finalised	3/11/11	Satisfactory	In progress	4	5	0
Ruislip Gardens	Finalised	10/11/11	Satisfactory	March 12	0	0	0
St Bernadettes	Finalised	1/03/12	Satisfactory		1	2	3
St Swithun Wells	Finalised	26/03/2012	Full	In progress	0	1	0
<b>Special</b>							
Meadow	Finalised	26/04/2012	Satisfactory	In progress	1	4	2
Hedgewood	Finalised	16/11/11	Satisfactory	June 2012	0	0	0
<b>Nursery Schools</b>							
McMillan Nursery	Finalised	12/12/11	Satisfactory		1	3	1
<b>ICT audit contract</b>							
Penetration Testing Arrangements (HGfL)	Finalised	18/01/2012	Satisfactory		0	1	0
Adults and Children's Protocol	Finalised	12/09/2011	Limited	April 2012 revised date 1 Sept 2012 -	0	1	0
Schools Security	Finalised	2/07/2012	Limited		0	8	3



Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
LBH Cloud Computing Advisory Review	Finalised	17/5/2012	Not applicable		0	0	0
CAPITA – Online payments systems - Security	Finalised	12/09/2011	Satisfactory	February 12	0	0	0
<b>Contingency Audits</b>							
Investigation 050	Completed	N/A	N/A	N/A	0	0	0
Investigation 051	Completed	N/A	N/A	N/A	0	0	0
New Year's Green Lane Weighbridge	Finalised	19/06/12	Limited	N/A	5	8	7
Payments for Contingent Labour (on and off contract)	Finalised	17/07/12	Satisfactory	N/A	0	4	0
Direct Payments	Draft issued						
Investigation 056	Finalised	Feb 2012	N/A	May 2012 revised date August 2012	3	1	0
CRC Energy Efficiency Scheme	Finalised	15/02/2012	Limited	Follow up July 2012 revised date Oct 2012	4	0	0
Investigation 057	In Progress						
Investigation 059	Finalised	6/02/2012	N/A	July 2012	0	0	0
Investigation 060	In Progress						

Internal Audit Plan 2010-11 Progress								
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations			
					H	M	L	
<b>CROSS CUTTING CORPORATE ISSUES</b>								
Records Management	Finalised	01/06/2011	Limited	July 2012	0	0	0	0
Subsistence	Finalised	9/7/10	Satisfactory	October 11 – revised date Sep 12	1	0	0	0
<b>FINANCE &amp; RESOURCES</b>								
CT/NNDR - System	Finalised	14/7/2011	Satisfactory	Aug 12 – revised date Sept.2012	0	1	0	0
LG Pension Scheme - Governance	Finalised	30/09/10	Satisfactory	August 2012	0	0	0	0
General Ledger	Finalised	31/05/11	Satisfactory	August 2012	0	0	0	0
<b>DCEO</b>								
Learning & Development	Finalised	01/07/11	Satisfactory	March 2012 revised date Aug 2013	0	1	0	0
<b>EDUCATION &amp; CHILDREN'S SERVICES</b>								
<b>Schools - Primary</b>								
Glebe Primary	Finalised	19/7/10	Satisfactory	In progress	1	0	0	0
<b>People with Physical and Sensory Disability</b>								
Children with Disabilities - Transition	Finalised	14/09/11	Limited	May 2012 revised date June 2012	1	1	1	1
<b>Other Adult Services</b>								
Safeguarding Adults	Finalised	18/05/11	Satisfactory	August 2012 revised date Dec 2012	0	1	0	0

<b>Internal Audit Plan 2010-11 Progress</b>						
<b>Audit Title</b>	<b>Status</b>	<b>Date Finalised</b>	<b>Assurance Level</b>	<b>Date of last Follow up and Revised Date</b>	<b>Number of outstanding recommendations</b>	
<b>ENVIRONMENT AND CONSUMER PROTECTION</b>						
Improvement Projects	Finalised	5/7/2011	Satisfactory	August 12 Revised date September 2012	0	2
Parking Cash Collection	Finalised	27/06/2011	Satisfactory	August 2012	0	0
<b>Property</b>						
Facilities Management Contract	Finalised	6/10/11	Limited	May 12 Revised Date Oct 2012	1	2
<b>Arts, Culture, Libraries &amp; Adult Education</b>						
Culture and Arts Strategy	Finalised	11/11/10	Satisfactory	August 2012 revised date September 2012	1	0
<b>Sport and Leisure</b>						
Fusion Management Contract	Finalised	06/07/11	Limited	August 2012 Revised Date September 2012	2	0
<b>Contingency</b>						
Investigation 030	Finalised	15/10/10	N/A	February 2012 revised date July 2012	1	2
<b>ICT audit contract</b>						
Liquid Logic	Finalised	May 11	Limited	August 2012 revised date November 2012	0	2
Oracle Financials- Debtors	Finalised	July 11	Limited	August 2012 Revised date	0	1

<b>Internal Audit Plan 2010-11 Progress</b>						
<b>Audit Title</b>	<b>Status</b>	<b>Date Finalised</b>	<b>Assurance Level</b>	<b>Date of last Follow up and Revised Date</b>	<b>Number of outstanding recommendations</b>	
E-Payments	Finalised	April 11	Limited	September 2012 Followed up May 2012 – Revised date Oct 2012	1	0
Information Assurance & Security	Finalised	31/1/11	Satisfactory	November 2011 – Revised date Dec 2012	0	1
<b>Hillingdon Homes Audits by Mazars</b>						
Housing – Responsive Repairs	Finalised	Aug 10	Substantive	August 2012 revised date Sept 2012	1	0

Internal Audit Plan 2009-10 Progress									
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations				
					H	M	L		
<b>DEPUTY CHIEF EXECUTIVE/FINANCE &amp; RESOURCES</b>									
<b>Corporate Property</b>									
Utilities Contracts Gas & Electricity	Finalised	26/03/10	Satisfactory	January 2012 – revised date Aug 2012	0	1	0		
<b>ENVIRONMENT &amp; CONSUMER PROTECTION</b>									
Highways Planned Maintenance	Finalised	26/01/10	Satisfactory	Aug 2012 – revised date Sept. 2012	0	3	0		
<b>CHILDREN'S SERVICES</b>									
Asylum Accommodation	Finalised	23/04/10	Satisfactory	August 12 – revised date Sept 2012	0	3	0		
<b>Learning Disabilities</b>									
Sec 75 Agreement (Funding of LD Services)	Finalised	6/10/10	Satisfactory	Nov 2011 – revised date Mar 2013	0	1	0		

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# Agenda Item 9

## WORK PROGRAMME 2012/13

**Contact Officer:** Khalid Ahmed  
**Telephone:** 01895 250833

## REASON FOR ITEM

This report is to enable the Committee to review meeting dates and forward plans.

## OPTIONS AVAILABLE TO THE COMMITTEE

1. To confirm dates for meetings
2. To make suggestions for future working practices and/or reviews.

## INFORMATION

**All meetings to start at 5.00pm**

<b>Meetings</b>	<b>Room</b>
<b>26 June 2012</b>	<b>CR 2</b>
<b>20 September 2012</b>	<b>CR 3</b>
<b>6 December 2012</b>	<b>CR 5</b>
<b>12 March 2013</b>	<b>tbc</b>

## AUDIT COMMITTEE

### 2012/13 DRAFT Work Programme

26 June 2012	Corporate Fraud Team Work Plan	Head of Audit & Enforcement
	Consolidated Fraud Report	Head of Audit & Enforcement
	Annual Review on the Effectiveness of the systems of Internal Audit	Head of Audit & Enforcement
	Draft Annual Governance Statement	Deputy Chief Executive and Corporate Director of Central Services / Head of Policy
	Head of Audit Annual Assurance Statement	Head of Audit & Enforcement
	Internal Audit Progress Report	Head of Audit & Enforcement
	Audit Committee Annual Report to full Council	Head of Audit & Enforcement
	Audit Committee Work Programme	Democratic Services Manager

Meeting Date	Item	Officer/member
20 September 2012		
	Approval of the 2011/12 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2012	Deputy Director of Finance/Deloitte
	Deloitte Annual Audit Letter	Deputy Director of Finance/Deloitte
	External Audit Report to the Audit Committee on the 2011/12 audit of the Pension Fund Financial Statements	Deputy Director of Finance/Deloitte
	Internal Audit Progress Report and plan amendments	Head of Audit & Enforcement
	Risk Management Quarter 1 Report – PART II	Head of Policy
	Audit Committee Work Programme	Democratic Services Manager

Audit Committee 20 September 2012  
PART I – MEMBERS, PUBLIC & PRESS



<b>6 December 2012</b>	<b>* Private Meeting with External Auditors to take place before the meeting</b>	
	<b>Internal Audit Progress Report and plan amendments</b>	<b>Head of Audit &amp; Enforcement</b>
	<b>Treasury Management Strategy 2012/13</b>	<b>Deputy Director of Finance</b>
	<b>Deloitte – Annual Audit Letter</b>	<b>Deloitte</b>
	<b>Corporate Fraud Update</b>	<b>Head of Audit &amp; Enforcement</b>
	<b>Audit Committee Work Programme</b>	<b>Democratic Services Manager</b>

<b>12 March 2013</b>	<b>* Private meeting with the Head of Audit &amp; Enforcement to take place before the meeting</b>	
	<b>Internal Audit Progress Report</b>	<b>Head of Audit &amp; Enforcement</b>
	<b>Internal Audit Strategy</b>	<b>Head of Audit &amp; Enforcement</b>
	<b>Internal Audit Operational Plan</b>	<b>Head of Audit &amp; Enforcement</b>
	<b>Review of Internal Audit Terms of Reference,</b>	<b>Head of Audit &amp; Enforcement</b>
	<b>Annual Governance Statement – Interim Report</b>	<b>Deputy Chief Executive and Corporate Director of Central Services / Head of Policy</b>
	<b>Report on the Revisions to the Treasury Management Strategy Statement and Investment Strategy</b>	<b>Deputy Director of Finance</b>
	<b>Balances and Reserves Statement</b>	<b>Deputy Director of Finance</b>
	<b>Deloitte Annual Grant Audit Letter</b>	<b>Deputy Director of Finance/Deloitte</b>
	<b>Deloitte – 2012/13 Annual Audit Plan</b>	<b>Deputy Director of Finance/Deloitte</b>
	<b>Risk Management Report Part II</b>	<b>Head of Policy</b>
<b>Audit Committee Work Programme</b>	<b>Democratic Services Manager</b>	

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