Deloitte.

London Borough of Hillingdon

Report to the Audit Committee on the Audit for the year ending 31 March 2012

Planning Report

Issued on 28 February 2012

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Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for London Borough of Hillingdon for the year ending 31 March 2012. The FRC has made it clear, in its 'Update for Audit Committees – November 2010', that it expects audit committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. This report will describe the work we undertake in order to support this activity.

Audit scope		
Our audit scope is unchanged from last year	Our audit will be carried out in accordance with the Audit Commission's Code of Audit Practice 2010. Our primary audit responsibilities are also summarised in the "Briefing on Audit Matters" paper, included at Appendix 3 to this report. In summary, under the Audit Commission's Code of Audit Practice we have responsibilities in two main areas: • the financial statements and the Annual Governance Statement; and • aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit of the Council's Local Government Pension Scheme is dealt with in a separate audit plan. We propose an audit fee of £345,150 (2010/11: £359,155) for the audit of the Council's financial statements, the assurance report on the whole of government accounts return and value for money conclusion. This is in line with the scale fee set by the Audit Commission. Further information on fees is provided in Appendix 1.	Section 1 Appendix 1

Key audit risks		
We summarise the key audit risks identified at this stage	The key audit risks which we have identified as part of our overall audit strategy are: 1. **Revaluation of properties**. Properties are normally revalued every 5 years under a rolling programme. The valuation is sensitive to judgements on key assumptions. 2. **Valuation of the gross pension liability**. This continues to be an audit risk in view of the size of the liability and sensitivity to judgements in this area. 3. **Recognition of grant income**. We see this as a continuing audit risk in view of the need for judgements on recognition to be made on a grant-by-grant basis. 4. **Completeness of bad debt provision for sundry debt**. This continues to be an audit risk in view of different judgements and assumptions used in calculating the provision for the various sub-categories of sundry debt. 5. **Housing Revenue Account self-financing settlement payment**. The payment and loan are considered to be a potential audit risk due to the size of balances involved and that it is an unusual one-off transaction where specific accounting guidance is yet to be released. 6. **Recording of capital spend**. The Council is forecasting a large capital spend in 2011/12. There is a risk that revenue and capital expenditure may be misclassified 7. **Accounting for schools**. We understand that a number of community schools are due to be awarded, or have already been awarded, academy status in the year. The accounting for these transactions is considered a key audit risk. 8. **Management override of key controls**. This is a presumed area of risk under International Standards on Auditing (UK and Ireland).	Section 2

Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies		
We have set preliminary planning materiality at £7.8 million and the threshold for reporting misstatements to you at £391,000	Our preliminary assessment of materiality for the 2011/12 audit is £7.8m (2011: £7.8 million), which is based on prior year results. We will review and update this as applicable for the actual position recorded in the 2011/12 draft financial statements. Our preliminary assessment of the level at which we report unadjusted misstatements to the audit committee is £391,000, (2011, £391,000). We will also report other adjustments that we consider to be qualitatively material. We take this opportunity to remind you of the misstatements identified in the prior period. The two judgemental uncorrected misstatements related to the valuation of fixed assets using the 'instant build' basis and overprovision for housing benefit overpayments. These uncorrected misstatements reduced cost of services by £0.3 million, reduced net assets by £2.9 million and reduced unusable reserves by £3.2 million. We would also like to remind you of the following uncorrected disclosure deficiencies identified in the prior year with a view to addressing these at an early stage of the current year reporting process: • Financial Instruments: ageing of assets. There is a requirement to provide an analysis of assets which are past due but not impaired. This requirement includes a need to disclose the ageing of such assets. • Revaluations disclosure. The Code requires a table of revaluations over the preceding five years to be presented in the notes to the accounts.	Section 1

Internal control		
We will evaluate the design and test the implementation of key controls relevant to the audit	To assist us in planning our work, we will evaluate the design and test the implementation of key controls relevant to the audit, including controls which mitigate the key audit risks we have identified. Once we have assessed whether controls are designed and implemented appropriately, we will obtain assurance from substantive testing procedures rather than performing further detailed testing on controls as we consider this approach to be the most efficient. We plan to rely on the work of the Council's internal auditors to inform our risk assessment.	Section 4

Other matters for those charged with governance		
We confirm we are independent of the London Borough of Hillingdon	We have communicated to you in our publication entitled "Briefing on audit matters", in Appendix 3 to this report, those additional items which we are required to report upon in accordance with International Standards on Auditing (UK and Ireland). The document also provides detail of the safeguards and procedures we have in place to ensure our independence and objectivity. We confirm we are independent of the London Borough of Hillingdon and will reconfirm our independence and objectivity to the audit committee for the year ending 31 March 2012 in our final report to the audit committee. A division of our firm, Drivers Jonas Deloitte, is engaged to provide services to the Council in connection with monitoring the delivery of a building contract for the expansion of six primary schools. This engagement was approved by the Audit Commission and we do not consider this engagement to affect our independence as external auditors. This was originally discussed during your Audit Committee meeting on 10 March 2011.	Appendix 3

Executive summary (continued)

New accounting and legal pronouncements		
The 2011/12 edition of the Code replaces the 2010/11 edition	The 2011/12 edition of the Code of Practice on Local Authority Accounting ("the Code") makes a number of amendments to the 2010/11 edition. The majority of changes are clarifications of, rather than revisions to, past accounting, presentation and disclosure guidance. We have summarised the most significant changes in Section 3. The main impacts are: • the requirements of FRS 30 *Heritage Assets* are included in the 2011/12; • additional disclosures required in respect of remuneration and exit packages; and • the definition of a related party has been extended to include government-related entities. Officers' provisional assessment is that these will not impact significantly on the accounts.	Section 3

Communications		
We have summarised how and when we plan to communicate to you	Section 6 sets out the form, timing and expected general content of our communications to you.	Section 6

1. Scope of work and approach

1.1 Overall scope and approach

We will conduct our audit in accordance with the Audit Commission's Code of Audit Practice 2010 and other guidance issued by the Audit Commission.

We have responsibilities in two main areas:

- the financial statements and the Annual Governance Statement; and
- aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also asked to provide an assurance statement on the Council's consolidation pack for Whole of Government Accounts purposes and to carry out procedures under instruction from the Audit Commission to certify grant claims and other returns on behalf of the Audit Commission.

1.2 The financial statements and Annual Governance Statement

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts we intend to issue will reflect the financial reporting framework adopted by the London Borough of Hillingdon, being the Code of Practice on Local Authority Accounting ("the Code") which is based on International Financial Reporting Standards ("IFRS").

For the 2011/12 financial statements we have determined a preliminary materiality of £7.8 million (2010/11: £7.8 million) based on prior year results. We will review and update this as applicable on the basis of the actual position recorded in the 2011/12 financial statements. This figure takes into account our knowledge of the Council, our assessment of audit risks and the reporting requirements for the financial statements. The concept of materiality and its application to the audit approach are set out in our "Briefing on Audit Matters" paper included in Appendix 3 to this report.

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatements in the financial statements and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

1.3 The value for money conclusion

The Audit Commission has advised that in 2012 the auditor's statutory value for money ("VFM") conclusion will be based on the following criteria specified by the Commission:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2012
The organisation has proper arrangements in place for securing financial resilience.	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.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

1. Scope of work and approach (continued)

The extent of our work, and the need to undertake specific procedures, will be determined by an initial risk assessment. This risk assessment will include, but is not limited to:

- management's own assessment of significant risks;
- review of core strategic documents including financial planning, operational and cost saving plans;
- review and consideration of the Audit Commission indicators;
- review of Cabinet, Audit Committee and Board meeting minutes; and
- review of Internal Audit findings and findings from our external audit.

We review much of this information as it becomes available throughout the year and plan to undertake the majority of our detailed work in March and April. We will report to the Audit Committee on any risks identified as part of value for money risk assessment in your June meeting.

1.4 The 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 to audit and report on the Council's WGA return. Our report is issued to the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

1.5 Liaison with internal audit

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function, review the findings of internal audit and adjust the audit approach as is deemed appropriate. This normally takes a number of forms:

- assessment of the control environment;
- discussion of the work plan for internal audit;
- where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work; and
- liaison with internal audit.

1.6 Fees

We propose an audit fee of £345,150 (2011: £359,155) for the audit of the accounts, the assurance report on the Whole of Government Accounts and the value for money conclusion for the Council. This is in line with the scale fee set by the Audit Commission. This excludes the fee for the audit of the Local Government Pension Scheme, which is dealt with in a separate report to this Committee, and fees for the certification of grant claims. The total estimated and proposed amount for all these services for 2012 is analysed in Appendix 1.

An analysis of the actual fee will be included in our final report to the audit committee.

2. Key audit risks

Based upon our initial assessment, we will concentrate specific effort on the significant audit risks set out below:

Revaluation of properties

Properties are normally revalued every five years under a rolling programme. The valuation is sensitive to judgements on key assumptions	The Council has a substantial portfolio of property, amounting to £980,180k at 31 March 2011, which is subject to a rolling revaluation programme. Some of the properties require the application of specialist valuation assumptions. The current and recent economic volatility has affected property values, generally, and the Council has recorded significant gains and losses over the last three years. We have identified this as a risk because of the significant value of the asset base and the fact that valuations are based on a series of assumptions and judgements. We understand the Council will be valuing community assets and investment properties in 2011/12, as well as any property assets which have been completed in-year.
Deloitte response	We will document and test the design and implementation of controls in place to value the Council's property. We will evaluate the Council's arrangements for updating market values and the qualifications, relevant experience and independence of specialists utilised to carry out valuations and review the reasonableness of key assumptions. We will also utilise our internal valuation specialists to challenge key assumptions used by the Council in valuing their property.

Valuation of the gross pension liability

This continues to be a key audit risk in view of the size of the liability and sensitivity to judgements in this area	The pension liability relating to the pension scheme is substantial, amounting to £826,890k at 31 March 2011, and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment. We have identified this as a risk because of the significant value of the gross liability and the fact that the valuation is based on a series of assumptions and judgements.
Deloitte response	We will document and test the design and implementation of controls in place to value the gross pension liability. We will consider the qualifications, relevant expertise and independence of the actuary engaged by the Council and the instructions and sources of information provided to the actuary. We will include a specialist from our team of actuaries within our engagement team to assist in the benchmarking and challenge of key assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

Recognition of grant income

We see this as a continuing audit risk in view of the need for judgements on recognition to be made on a grant-by-grant basis	Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the stipulations made by the grant funder for each grant. There have not been any changes to accounting practice in this area, but CIPFA has clarified that the existing guidance for capital grants applies equally to revenue grants. We have identified this as a risk due to the value of grant income received by the Council and the judgements used to determine when income should be recognised.
Deloitte response	We will document and test the design and implementation of controls in place to correctly account for grant income. We will carry out detailed testing on grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.

2. Key audit risks (continued)

Completeness of bad debt provision for sundry debt	
This continues to be a key audit risk in view of different judgements and assumptions used in calculating the provision for the various sub-categories of sundry debt	The sundry debts balance (Other entities and individuals), which was £24,002k gross of provision at 31 March 2011, includes a number of different sub-categories of debt, all of which have different methodologies for calculating the level of provision required. By nature, provisions are judgemental, but should be based on sound assumptions and robust methodologies. In the 2010/11 audit, we identified a judgemental misstatement of £1,160k relating to the overprovision of housing benefit payments.
Deloitte response	We will document and test the design and implementation of controls in place to calculate the bad debt provision for sundry debts. We will challenge the Council's methodologies and assumptions used to calculate the sundry debt provision and the evidence collected by officers to support its approach. We will consider whether provisions appropriately reflect the impact of the current economic conditions by reference to recent collection performance and trends.

Housing Revenue Account ("HRA") self-financing settlement payment	
The Council is required to make a one-off payment of £191,571k to central Government on 28 March 2012	The Council is required to make a one-off payment to central Government on 28 March 2012 as part of the move towards self financing of the HRA. In return for this payment, the Council will be able to retain surpluses on the HRA from 1 April 2012 onwards. We understand that the final determination for the payment to be made is £191,571k, which the Council plans to fund through Public Works Loan Board ("PWBL") loans. Guidance on accounting for this transaction is anticipated in a Local Authority Accounting Panel ("LAAP") bulletin from CIPFA.
Deloitte response	We will document and test the design and implementation of controls in place to correctly account for the transaction. We will perform testing on the treatment of the transaction with central Government to verify it has been recognised in accordance with the LAAP bulletin and other relevant accounting standards. We will also review the disclosures and presentation of the loan in the financial statements against the requirements of the Code. Finally we will compare the level of indebtedness at the Council against its borrowing limit.

Recording of capital spend	
The Council is forecasting significant capital spend in 2011/12	The Council is forecasting significant capital spend in 2011/12. At month 9, the forecast general fund capital programme was £52,527k and forecast HRA capital programme was £12,709k. The recording of expenditure on capital projects gives rise to the risk of misclassification of capital and revenue expenditure.
Deloitte response	We will document and test the design and implementation of controls in place to correctly account for capital spend. We will then perform detailed testing of items coded as additions to capital assets in the year.

2. Key audit risks (continued)

Accounting for schools	
Three community schools have been, or are due to be, awarded academy status in the year.	We understand that three of the Council's community schools are to be awarded, or have already been awarded, academy status during the year. The value of the land and buildings relating to these schools held in the Council's accounts at 1 April 2011 is £14,932k. There is currently limited guidance on how these transactions are to be accounted for. We have identified this as a risk due to the material value of the schools on the Council's balance sheet at 1 April 2011 and the limited guidance available.
Deloitte response	We will review the schools that have converted to academy status in the year. For those community schools that have converted to academy status in the year, we will understand how the transactions have been accounted for. We will also review the disclosures for any schools that are awarded academy status after year end.

Management override of key controls	
This is a presumed area of key audit risk within International Standards on Auditing (UK and Ireland)	Auditing standards recognise that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports. They include a presumption of a risk of management override of key controls.
Deloitte response	We will focus our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. We have included the conversion of community schools to academies and the HRA self-financing settlement payment as audit risks on the basis that they are unusual transactions in the year. In testing journals, we will make use of computer assisted audit techniques to analyse the whole population of journals to identify those that have features which could be indicators of possible fraud and to focus our testing on these. Our consideration of key accounting estimates will focus on areas of significant judgement identified separately as areas of key audit risk. We will consider through our detailed planning procedures and subsequent performance of substantive procedures whether there are any transactions where the business rationale is not clear. In the event that we do identify any such transactions, we will design and perform focussed procedures.

3. New legal and accounting pronouncements

The Code of Practice on Local Authority Accounting 2011/12 ("the Code") was released in January 2011 and makes a number of amendments to the 2010/11 edition. We have summarised the main amendments relevant to the London Borough of Hillingdon and noted the potential impact these amendments may have below:

Amendment	Potential impact
The 2011/12 Code provides guidance on accounting for income from the Community Infrastructure Levy and Business Rates Supplement ("BRS").	Where a billing authority is not a levying authority, BRS income is not income of the authority and shall not be included in its Comprehensive Income and Expenditure Statement. Amounts deducted from BRS income to meet administrative expenses are a billing authority's income and shall be included in the Comprehensive Income and Expenditure Statement on an accruals basis. This is consistent with the Council's treatment in 2010/11.
The 2011/12 Code requires additional disclosures in respect of remuneration and exit packages. The Code has introduced a requirement to disclose the number and cost of exit packages agreed.	The Council is required to disclose the number of exit packages agreed (grouped in rising bands of £20,000 to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. The Council shall disclose the total cost of packages agreed in each band. Bands shall be combined where necessary to ensure that individual exit packages cannot be identified. Exit packages include compulsory and voluntary redundancies costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. This is a new disclosure required by the Council in 2011/12. In 2010/11 there was a total termination benefits liability of £2,309k.
The 2011/12 Code introduces a requirement that, within the annual governance statement, an authority includes a specific statement on whether the authority's financial management arrangements conform to the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.	The Council is required to include a specific statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework; and, where they do not, an explanation of how they deliver the same impact. This is an additional requirement on 2010/11.
The 2011/12 Code amends the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities. Additional guidance on the definition of a related party is also included.	The 2011/12 Code's definition of a related party now includes government-related entities, defined as an entity that is controlled, jointly controlled or significantly influenced by a government. For central government departments, government agencies, NHS bodies and other local authorities, the Council is required to disclose the name of the government (i.e. UK Government) and the fact that the government exerts significant influence through legislation and grant funding; the nature and amount of each individually significant transaction; and for other transactions that are collectively, but not individually significant, a qualitative or quantitative indication of their extent. A number of these disclosures were made in the 2010/11 financial statements.
The 2011/12 Code incorporates the effect of regulations and statutory guidance introduced to mitigate the impact of the transition to IFRS on the General Fund.	The impact of these regulations and statutory guidance were incorporated by the Council in the 2010/11 financial statements.

3. New legal and accounting pronouncements (continued)

Amendment	Potential impact
The 2011/12 Code adopts the requirements of FRS 30 *Heritage Assets*. Heritage assets are carried at valuation where possible and additional disclosures are required.	The Council is required to account for tangible heritage assets in accordance with FRS 30 *Heritage Assets*. This is because there is no IFRS that deals with tangible heritage assets and paragraphs 9 to 12 of IPSAS 17 *Property, Plant and Equipment* provide only limited guidance. Intangible heritage assets are to be accounted for in accordance with IPSAS 31 *Intangible Assets*. A tangible heritage asset is a tangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Examples include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, orders and decorations (medals), museum and gallery collections and works of art. Community assets (including parks, cemeteries, crematoria and allotments) are not heritage assets. Where the Council has information on the cost or value of the heritage asset, the Council shall recognise the asset. Where information on the cost or value of the heritage asset is not available, the assets shall not be recognised in the balance sheet but disclosures should be made in respect of these assets. These disclosures include why the asset is not recognised and explain the significance and nature of these assets not reported in the balance sheet. We understand the Council has performed an exercise to identify potential heritage assets and has concluded that it does not currently hold and assets that fall in to this category.
The 2011/12 Code clarifies that financial instrument disclosures are required in respect of leases and PFI, PPP and similar schemes.	Section 7.1 of the Code clarifies that the disclosure requirements for financial instruments apply to the payables under PFI and similar schemes and derivatives embedded in leases, PFI and similar schemes. The Council's PFI arrangement was included in the financial instruments disclosures in the 2010/11 financial statements.
The 2011/12 Code incorporates minor changes to the disclosures of the nature and extent of risks arising from financial instruments. Additional disclosures are also required where the level of soft loans granted by an authority is material.	Section 7.4 of the Code includes the minor changes to the disclosures of the nature and extent of risks arising from financial instruments. Soft loans, where material, are required to be disclosed separately from loans and receivables. In addition, a reconciliation is required between opening and closing carrying amounts of soft loans.
The 2011/12 Code also clarifies the requirements in a number of areas of uncertainty was identified in the 2010/11 Code.	This covers a number of areas including: fair value of surplus assets; adaption's of IAS 20 *Government Grants* apply equally to capital and revenue grants; combination of public sector bodies; non-cash items in the Collection Fund; treatment of irrecoverable VAT in the cost of an asset; presentation of the financial statements and HRA statement; statutory accounting requirements in respect of HRA and Major Repairs Reserve; criteria to be used in classifying leases; guidance in respect of changes to lease terms; disclosure in respect of investment properties; recognition of leased intangible assets; and disclosure and presentation of discontinued operations and disposals of non-current assets.

4. Consideration of fraud

4.1 Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We are aware that management has the following processes in place in relation to the prevention and detection of fraud:

- fraud and corruption strategy;
- code of conduct for employees; and
- whistle blowing procedures.

4.2 Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

4.3 Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments Management's process for identifying and responding to the risks of fraud in the entity Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity Management's communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud	How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity

We will make inquiries of others within the Council as appropriate. We will also inquire into matters arising from your whistle blowing procedures.

4. Consideration of fraud (continued)

4.4 Process and documentation

We will gather this information through meetings and review of the relevant documentation, including meeting minutes.

4.5 Concerns

As set out in Section 2 above we have identified the risk of fraud in grant income recognition and management override of controls as a key audit risk for your organisation.

4.6 Representations

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 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.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group 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.
- 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.

5. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters", included at Appendix 3 to this report, our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”). Our audit approach consists of the following:

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered. At this stage, we do not propose to carry out tests on the operating effectiveness of controls and will obtain our assurance wholly from substantive testing procedures. We have selected this approach as the most efficient.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Council, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

6. Communications timetable

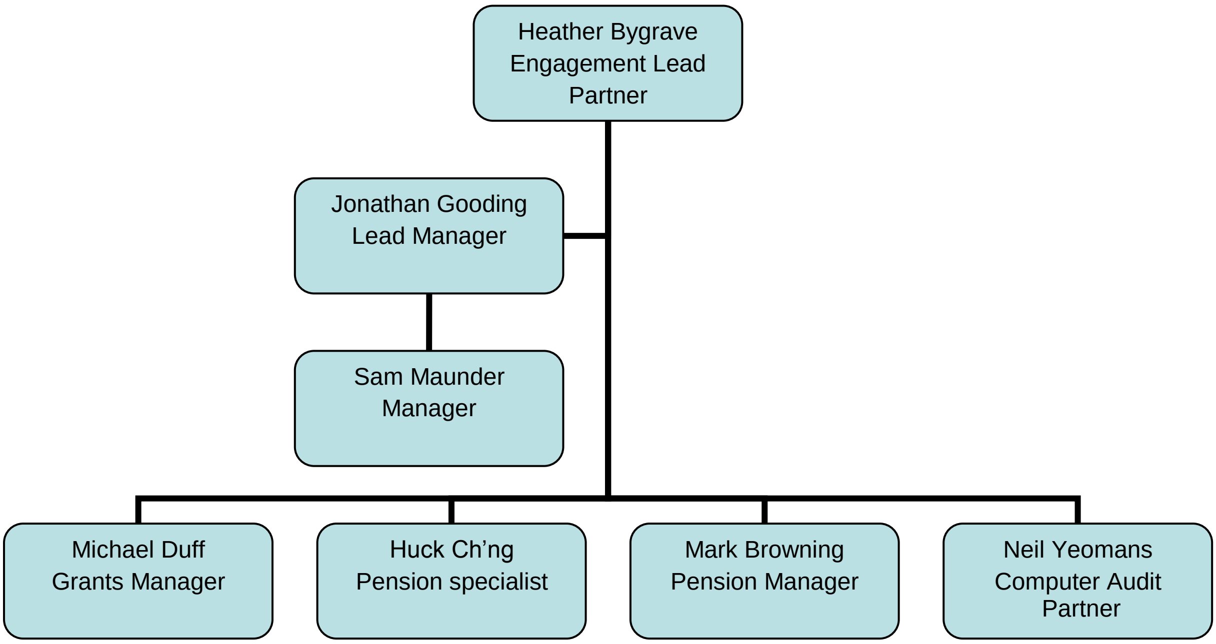
Set out below is the approximate expected timing of our reporting and communication with the audit committee.

Planning	Pre-year end fieldwork	VFM work	Year end fieldwork	Reporting	Post reporting activities
Meetings with management to: • confirm risk assessment; and management response and • agree on key judgemental accounting issues. Presentation of the audit plan to the audit committee Agreement of audit fees Early discussion on areas to improve financial statements and audit process	Update understanding of systems and controls, including IT systems Review relevant internal audit work Review of interim financial information for preliminary analytical review purposes Report results of controls work to management Performance of substantive testing procedures in areas that which can be advanced from the final audit visit	Performance of procedures specified by the Audit Commission	Performance of substantive testing Performance of specified procedures in relation to the audit of the WGA consolidation pack Audit issues meetings	Review of annual report and financial statements Presentation of final report to the audit committee on the findings of the audit Issuance of audit report on financial statements Issuance of value for money conclusion Issuance of assurance report on WGA consolidation pack	Audit feedback Issue of annual audit letter and presentation to the audit committee
January – March 2012	March – April 2012	March – April 2012	June – August 2012	July – September 2012	Nov 2012 – Jan 2013

Ongoing communication and feedback

7. Client service team

We set out below our audit engagement team:



8. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters", included at Appendix 3 to this report, and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be 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 Members of the London Borough of Hillingdon, 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. It should not be made available to any other parties without our prior written consent.

Deloitte LLP.

Deloitte LLP

Chartered Accountants
St Albans

28 February 2012

Appendix 1: Analysis of audit and grant certification fees

We summarise below our proposed audit fees as discussed with officers:

	2011/12 £	2010/11 £
Fees payable to the auditors 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 auditors for the audit of the London Borough of Hillingdon's pension scheme annual report	36,500	36,500
	381,650	395,655
Fees payable to the auditors for the certification of grant claims (**Note 1**)	210,071	210,071
Total fees for audit services (excluding VAT)	591,721	605,726
Non-audit fees:		
Drivers Jonas Deloitte contract monitoring engagement (**Note 2**)	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 and the quality of working papers provided to us and the timeliness with which audit queries are resolved. The above figure is our current estimate for 2011/12 based on the actual figure for 2010/11.

We expect grant certification fees to reduce in 2011/12 as a result of a number of qualifications raised in 2010/11 that are likely to be addressed through the training to be provided to Council staff at the end of March. In addition, Internal Audit has included 60 days in their Internal Audit Plan to assist with the testing of the Housing Benefits Claim this year.

Note 2 In our final report on the audit for the year ended 31 March 2011 presented to you in September 2011, we informed you the 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.

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. This was originally discussed during your Audit Committee meeting on 10 March 2011.

The total fees payable for 2011/12 in respect of monitoring the delivery of the building contracts is £242,231. Of this, £177,808 is retained by Drivers Jonas Deloitte with £64,423 being paid to subcontractors.

In setting the audit fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- there are no additional audit risks to those set out in section 2 of this report;
- Internal Audit meets the appropriate professional standards and undertakes the audits set out in their agreed plan with testing covering the whole of the financial year;
- management will provide good quality working papers and records to support the financial statements by the agreed start date for the audit;

Appendix 1: Analysis of audit and grant certification fees (continued)

- management will provide draft financial statements for the agreed start date of the audit which are complete and of a good standard;
- management will provide the draft pension scheme annual report by the agreed start date for the accounts audit to enable the work on that to be carried out contemporaneously with the audit work on the pension scheme information in the statement of accounts;
- management will provide a consolidation pack for WGA purposes with an audit trail for mapping to the statutory accounts and is properly prepared in accordance with Treasury guidance;
- management will provide requested information within three working days unless indicated that the request is more complex or time consuming;
- management will provide prompt responses to draft reports;
- management will provide a detailed commentary on status of recommendations together with supporting documentation; and
- a self assessment will be prepared for the use of resources assessment, including compilation of supporting documentation.

Where these requirements are not met or our assumptions change, we may be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2: Prior year uncorrected misstatements and disclosure deficencies

Uncorrected misstatements

We are required to communicate to you the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The following uncorrected misstatements were identified during the course of our prior year audit:

		Charge / (credit) to current year Comprehensive Income & Expenditure Statement £'000	Increase / (decrease) in Net Assets £'000	Decrease / (increase) in Reserves £'000
Judgemental Misstatements				
Fixed assets – instant build	**Note 1**	839	(4,083)	3,244
Housing benefit overpayment provision	**Note 2**	(1,160)	1,160	-
Total		**(321)**	**(2,923)**	**3,244**

Note 1 The Code states that fixed assets valued using the depreciated replacement cost ("DRC") should be undertaken on an 'instant build' basis. LAAP bulletin 88 states that 'the instant build approach means that finance costs are excluded from the valuation'. The Council included finance costs in DRC valuations of buildings.

Note 2 The Council currently provides for 100% of the housing benefit overpayment debt relating to former tenants. From work we have performed we have seen that in the last 2 years the Council has, on average, recovered 27% of this debt per annum and so we estimate that the provision is overstated by this amount.

Uncorrected disclosure deficencies

Disclosure	Detail
Financial Instruments: ageing of assets	There is a requirement to provide an analysis of assets which are past due but not impaired. This requirement includes a need to disclose the ageing of such assets. This is relevant to debtors where an ageing analysis is considered to be appropriate. The Council did not make this adjustment on the basis that it would be onerous to prepare and that some debtors systems cannot currently produce an aged analysis.
Revaluation losses disclosure	The Code requires a table of revaluations over the preceding five years to be presented in the notes to the accounts. The Council did not make this disclosure as it considered the current narrative to be reasonable.

Appendix 3: Briefing on audit matters

Published for those charged with governance

This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board (“APB”). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the members on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the Code;

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine planning materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

Appendix 3: Briefing on audit matters (continued)

Materiality (cont'd)

We determine planning materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for management and the Board whilst minimising a "box ticking" approach.

Our audit methodology is designed to give directors and members the confidence that they deserve.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures

Appendix 3: Briefing on audit matters (continued)

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720 (revised)	Section A: Other information in documents containing audited financial statements Section B: The auditor's statutory reporting responsibility in relation to directors' reports

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.

Appendix 3: Briefing on audit matters (continued)

Safeguards and procedures (cont'd)

- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Department (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.