

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:

Financial statements

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.

The Council's local government pension scheme annual report

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.

Value for money conclusion

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.

Whole of Government Accounts consolidation return

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.

Grants

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 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.

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
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.

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.

A handwritten signature in black ink that reads "Debbie LLP". The signature is written in a cursive, slightly slanted style.

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 (Note 1)	120,000	210,071
	<hr/>	<hr/>
Total fees for audit services (excluding VAT) (Note 3)	<u>501,650</u>	<u>605,726</u>
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, 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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