

London Borough of  
Hillingdon

Annual Audit Letter to the  
Members of the Council  
for the year ended 31  
March 2013

**DRAFT**

# Contents

Executive summary	1
1. Introduction	2
2. Financial reporting	3
3. Value for money conclusion	4
4. Grants	5
5. Responsibility statement	6
Appendix 1: Analysis of professional fees	7

# Executive summary

We are required to issue an annual audit letter (the “Letter”) to the London Borough of Hillingdon (“the Council” or “Hillingdon”) following completion of our audit procedures for the year ended 31 March 2013. That Letter will be published on the Audit Commission website. This is a draft of the Letter for review and comment by the Audit Committee prior to our finalisation of the Letter. We will finalise the Letter once we have signed our audit opinion on the Council’s statement of accounts, completion certificate and pension scheme annual report which we intend to do in the meeting on the 26<sup>th</sup> September 2013. The Letter’s main messages are:

## **The Council’s financial statements**

Subject to finalisation of audit procedures we intend to issue an unmodified opinion on the Council’s financial statements for the year ended 31 March 2013.

## **The Council’s local government pension scheme annual report**

Subject to finalisation of audit procedures we intend to issue an unmodified opinion on information in the Council’s pension scheme annual report for the year ended 31 March 2013.

## **Value for money conclusion**

Subject to finalisation of audit procedures we intend to issue an unmodified conclusion on the Council’s arrangements for securing value for money for the year ended 31 March 2013.

## **Whole of Government Accounts consolidation return**

We will be reporting to the National Audit Office ahead of the 4 October deadline and after the signing of the Council’s financial statements. Subject to finalisation of audit procedures we will be reporting that we consider the consolidated return to be consistent with the audited statutory accounts and that there are no errors above £1m to report.

## **Grants certification**

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 early in 2014 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 the Council has relevant 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’s 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) in respect of its local authority functions.

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 Council's accounts**

We have issued a separate report to the Audit Committee for the year ended 31 March 2013, 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 involve more complex accounting judgements and estimation including:

- accounting for grant income;
- valuation of property;
- valuation of the local Government pension fund liability;
- Housing Revenue Account self-financing;
- recording of capital and revenue expenditure; and adequacy of bad debt levels; and
- management override of controls.

In our work to date, which is subject to finalisation of audit procedures, we did not identify any significant issues arising from these areas and we consider management's judgements to be reasonable. A number of audit adjustments were identified through our work and subsequently corrected and reflected in the published Statement of Accounts.

Our report to the Audit Committee also includes some recommendations to assist with future financial control and reporting. These recommendations are in respect of: checking the accuracy of data submitted to the actuaries, further training in respect of journal postings, fixed asset valuations, the capital budgeting and monitoring process, a review of the Audit Committee terms of reference, formalising the approach to the National Fraud Initiative at the Council and email archiving.

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

We will report separately to the Audit Committee in respect of the work we performed over the pension scheme.

Our work identified a proposed misstatement of £0.4m which, if corrected, would have increased net assets and increased the change in the market value. Management did not correct this as they considered it to be immaterial. We intend to issue an unmodified 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 to review and report on the Council's 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.

We will be reporting to the National Audit Office on the Whole of Government Accounts ahead of the 4 October deadline. Subject to finalisation of our audit procedures we will be reporting that we consider the consolidation return to be consistent with the audited statutory accounts and that there are no uncorrected errors above £1m to report.

# 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 in respect of its local authority functions. This is known as the value for money (“VFM”) 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 2013
<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 our responsibilities;
- any work mandated by the Commission – of which there was none in 2012/13; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

## Risk assessment

We undertook a risk assessment to identify potential risks to the value for money conclusion. The areas where we paid special attention to were:

- The monitoring and control of construction contracts;
- capital budgeting and forecasting; and
- evidence of achieving savings.

## 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 so we intend to issue an unmodified 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 making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

Our programme was in progress at the time of writing. We will issue a separate Annual Audit Letter in respect of the grants programme in early 2014, 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 "Deloitte LLP". The signature is written in a cursive, slightly slanted style.

### **Deloitte LLP**

Chartered Accountants  
St Albans

16 September 2013



# Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2012 to 31 March 2013 are as follows:

	2013 £'000	2012 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the London Borough of Hillingdon's annual accounts, assurance report on the Whole of Government accounts and the value for money conclusion	207.1	345.2
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	36.5
	228.1	381.7
Fees payable for the certification of grant claims (Note 1)	90.2	120.0
<b>Total fees payable in respect of our role as Appointed Auditor</b>	<b>318.3</b>	<b>501.7</b>
<b>Non audit fees</b>		
Deloitte Real Estate contract monitoring engagement (Note 2)	157.1*	177.8

Note 1: Our work in respect of 2012/13 is ongoing and the amount shown above is an estimate only. The 2012-13 scale fees that the Audit Commission has set include reductions of up to 40% on 2011-12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imburement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

The fees receivable in respect of private and voluntary funds and in respect of the local government pension scheme are dealt with in separate reports to this meeting of the Audit Committee.

Note 2: In our audit plan issued to you on 27 February 2013 we reported that one of our divisions, Deloitte Real Estate, 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 auditor to the Council and we have also received approval from the Audit Commission to undertake this work.

\* The draft financial statements show a fee in respect of £349k for 2012/13. The reason for the difference is two-fold: firstly, the fee shown above is the net figure excluding subcontractor fees, plus some timing differences of invoices.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.co.uk/about](http://www.deloitte.co.uk/about) for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

© 2013 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

**Member of Deloitte Touche Tohmatsu Limited**