Deloitte.

London Borough of Hillingdon

Draft Report to the Audit Committee

On the 2009 Audit

22 September 2009

Contents

Executive Summary

We have pleasure in setting out in this document our report to the Audit Committee of London Borough of Hillingdon (LBH) for the year ended 31 March 2009 for discussion at the meeting scheduled for 22 September 2009. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2009.

Key audit risks

The following risks and judgemental areas were addressed during our audit work:

- Oracle system update: there was an increased risk of misstatement at the year end as an update and migration of information to the Oracle system was made during 2008/09;
- Fraud and corruption: there is the potential for increased occurrence of fraud and corruption as a consequence of the current economic downturn;
- Bad Debt Provision: during an economic downturn, there is a greater risk that debt recovery will fall, thereby reducing the net assets of LBH;
- A reduction in the value of the asset base to reflect the economic downturn; and
- Impairment of investments held in Icelandic Banks: during the year, two banks with which LBH held investments, collapsed, reducing the potential of full value of those investments being recovered.

Further details, including our response to judgemental areas can be found in Section 1.

Executive Summary (continued)

Other risks in relation to our Use of Resources Assessment and Value for Money conclusion

We have also set out comments in relation to other issues which we have identified and addressed during our audit work, and these are discussed in more detail in section 2. We highlight the following as areas that we have considered and addressed:

- Faster closedown: we have identified that LBH is seeking to approve and sign accounts earlier which requires clear management of controls around preparation;
- Cost reduction programme: LBH set and achieved a £11.3 million cost reduction programme in 2008/09 and forecasts a programme of £10.9 million to be achieved in 2009/10, in addition to a further £1 million in year savings programme; and
- Asylum Seeker Funds: we have identified that LBH is under pressure around its expenditure on Asylum Seekers, both in 2008/09 and continuing into 2009/10, and we have reviewed the accounting entries and arrangements to manage these pressures.

Financial performance and standing

We are pleased to report that LBH has had a successful year in 2008/09 in managing its finances, in what have been considerably challenging circumstances. LBH's net budgetary requirement in 2008/09 was set at £187.3 million, and against this, a £1 million underspend against budget was achieved. Whilst we recognise that there has been a £68 million deficit in the year, this is primarily due to impairments that have been made to the carrying value of fixed assets, reflecting the environmental downturn in property prices. However, this deficit does not directly impact upon council tax payers, and indeed, LBH was able to freeze council tax for residents in 2009/10.

The current economic climate is proving to be challenging for a wide range of organisations to continue to deliver services in such tightening fiscal boundaries. The challenges, of course have affected LBH, and we have reviewed the financial standing position of LBH taking into account this environment. We have found that LBH has addressed the challenges in a proactive and positive manner, including achieving a programme of cost reduction of £11.3 million, addressing the reduction Asylum Seekers funding; and inflationary in year increases in non pay items.

Executive Summary (continued)

Financial performance and standing (continued)

LBH has been able to increase its reserves (both general fund and earmarked reserves) by £2.98 million to £33.9 million as at the year end. Within this is an increased general fund reserve which stood at £16.9 million at the year end. Given the current economic environment, this adds to the ability of LBH to address challenges going forward.

We highlight this achievement, whilst also continuing to recognise that throughout our discussions, LBH is addressing what could be a challenging year ahead, with potentially reduced settlements in the future. LBH has therefore put together a medium term financial plan that has identified additional savings for 2009/10. We have identified that at the end of the first quarter, LBH is forecasting a position of circa £435k greater net expenditure than has been budgeted for. However, the Council has put in place mitigation plans to address this overspend such that management continue to forecast a break even position at the year end.

We have discussed our findings in greater detail in Section 3.

Accounting policies and financial reporting

As part of our audit, we consider the quality and acceptability of the Council's accounting policies and financial reporting. Our findings are discussed in section 4 and we report to you that there are no outstanding issues.

Executive Summary (continued)

Materiality and identified misstatements

Audit materiality was £6.39 million and has been calculated based upon gross expenditure.

We report to those charged with governance on all unadjusted misstatements greater than 5% of materiality or £319,500 unless they are qualitatively material.

At the time of writing, identified uncorrected misstatements decrease net income by £1.935 million.

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 the audit adjustments are included in Appendix [1].

We also report all individual identified recorded audit adjustments in excess of £319,500 and other identified misstatements in aggregate adjusted my management. At the time of writing we had identified a number of recorded misstatements, which are reclassifications, and therefore, have a nil effect on the net assets of LBH. We have outlined the detail of these in Appendix [1].

Disclosure deficiencies

We have worked with management throughout the audit, and are pleased to report that disclosure deficiencies have been amended by LBH on an ongoing basis throughout our audit work. There are no outstanding identified disclosure requirements to be amended by management.

Executive Summary (continued)

Accounting and internal control systems

We have made a number of recommendations in respect of the accounting and control environments, which are outlined more fully in Section 6. We have categorised each as high priority, and management have agreed that the deadline for implementation should be the end of September 2009. We outline our findings below:

- Restricting and monitoring access to systems by named third parties including Northgate;
- Improving user administration and password controls around key financial systems; and
- Clarifying how grants that have discretion regarding how they are spent should be accounted for.

In addition to the high priority recommendations we have also incorporated our other control findings for completeness within Appendix [2].

Executive Summary (continued)

Audit status

As at the time of writing, there are a number of areas to fully complete in order to be able to give an opinion on the financial statements. These include:

- Provisions;
- Debtors and Creditors;
- Payroll;
- Pensions;
- Certain Internal Review processes; and
- Notes to the Financial Statements

We will report orally to those charged with governance any adjustments or issues that arise from completion of this work at the Audit Committee on 22 September 2009.

However, subject to the satisfactory completion of these areas, we anticipate being able to issue an unqualified opinion on the financial statements for the year end 31 March 2009 on the date of the Audit Committee.

Corporate Governance

The Annual Governance Statement (AGS) covers all significant corporate systems, processes and controls, spanning the whole of LBH's activities. Our review focuses upon considering the completeness of disclosures made, and identifying any inconsistencies between these disclosures and information that we have become aware of in the course of our audit of the financial statements.

At the time of writing, and after discussion with senior management, we understand that LBH is updating this statement for latest findings following LBH's internal certification process.

Subject to this final statement being reviewed, and the additions being appropriate, we anticipate concluding that the AGS includes all appropriate disclosures and is consistent with our understanding of LBH's governance arrangements and internal controls derived from our audit work.

Executive Summary (continued)

Value for Money conclusion

Under the Code of Audit Practice 2008 (the Code), auditors are required to include a positive conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The conclusion is limited to an assessment of nine criteria specified by the Audit Commission under the Use of Resources (UoR) methodology. The UOR assessment consists of judgements against ten key lines of enquiry (KLOE) which focus on financial management but also link to the strategic management of the Authority. The KLOE cover a range of topics including how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. Assessments are carried out annually, as part of each council's external audit. For London Boroughs, the Commission has specified that nine of the ten KLOE will be considered for 2008/09.

For the purposes of the conclusion required by the Code, auditors are required to apply a yes/no assessment to the applicable Code criteria, that is the audited body either has proper arrangements in place or not.

We would like to take this opportunity to acknowledge the high quality of the self assessments that LBH prepared and submitted for this review, especially taking into account the tighter deadlines that were in place this year.

We are pleased to report that consider we consider that based upon our review, we expect to issue an unqualified value for money conclusion.

Acknowledgement

We would like to take this opportunity to thank all staff for their helpful, cooperative and open approach in working with us. This has been incredibly supportive to us in undertaking our work in our first year as your appointed auditors. We look forward to working with LBH in future years.

1. Key audit risks

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

Key audit risk	Background
1. Oracle system update	**Audit risk:** The Oracle accounting system is being updated during the year, increasing the potential risk for the audit of the year end Statement of Accounts. **Deloitte response:** We have undertaken additional work on the control environment in this area. Whilst we identified a number of recommendations in Section 6 below, we did not find any additional risks to our audit.
2. Fraud and corruption	**Audit risk:** Under International Auditing Standards Plus 240 – 'The auditor's responsibility to consider fraud in an audit of financial statements requires the auditors to perform certain audit procedures related specifically to fraud risk, and requires a presumption that revenue recognition is a specific risk'. We feel that there is an increased potential of occurrence in this area during a period of economic downturn. **Deloitte response:** We have worked closely with Internal Audit throughout our audit, and have reviewed their programme of work and key findings. We have also looked at key governance areas, such as the Whilstleblowing Policy. We have also reviewed the Annual Statement of Governance. Within the Annual Statement of Governance we have discussed a revision to the Statement, and this is discussed further in Section 3.
3. Bad Debt Provision	**Audit risk:** During a period of economic downturn, there is an increased risk that rates of debt recovery will decrease, increasing exposure of LBH to bad debt write offs. **Deloitte response:** During our audit work, we have tested the bad debt provision, and have raised a number of adjustments to this. These are discussed in detail in Section 5, but specifically relate to: • The general level of provision; and • National Non Domestic Rate (NNDR) and Council Tax.

1. Key audit risks (continued)

4.Icelandic Banking Collapse	**Audit risk:** In October 2008, a number of high profile banks collapsed, including Heritable Bank and Landsbanki, with which many local authorities in England held deposits. LBH had invested £20m in these banks (£15m in Heritable Bank and £5m in Landsbanki). There is a significant risk that the investment may not be recouped, or that only part will be recovered. **Deloitte response:** We have worked closely with LBH since this collapse to determine the accounting treatment of this event. We have also taken into account CIPFA guidance on how to account for the impairment. In terms of the accounting treatment, we are satisfied that LBH has followed the guidance that has been issued. We have re-performed the calculations undertaken and are satisfied that the impairment has been reflected fairly in the financial statements.
5. Reduction in the carrying value of fixed assets	**Audit risk:** During an economic recession, there is an increased risk that the carrying value of assets is overstated within the balances, thereby increasing LBH's net worth **Deloitte response:** We have reviewed the approach to valuation undertaken by LBH to impairing their fixed assets and the reasonableness of key assumptions and changes in value. LBH has made an impairment of £56 million to its operational land and buildings in order to reflect current market conditions, and we have reviewed this impairment as part of our audit testing.

2. Other risks in relation to our Use of Resources assessment and Value for Money conclusion

Within this section we outline other issues that we have addressed as part of our audit plan.

Other issue `	Background
1.International Financial Reporting Standards (IFRS)	**Risk: –** Although full IFRS reporting does not come into effect until 2009/10, comparatives for the year ended 31 March 2009 will be required. It is therefore vital that LBH has arrangements to ensure that the comparatives can be derived. **Deloitte response:** We have liaised regularly with LBH around this issue, and have discussed the approach taken towards IFRS convergence. LBH has appointed external support to assist in this transition. The Authority is currently on track to meet the CIPFA timetable for IFRS convergence.
2. Faster closedown	**Risk:** through our knowledge of LBH, we are aware that the Council was seeking to continue to develop its faster closedown processes both for approving draft accounts and also signing final accounts. **Deloitte response:** We have worked with the finance team to support work towards achieving this, and also worked with internal audit to review the work undertaken to assess the closedown processes. We have worked closely with the finance team to develop a timetable to sign the final accounts in line with its intentions. We were pleased to see that LBH did achieve its intended date for approving the draft accounts, and we have continued to work closely to achieve the timetable for signing the final accounts.

2. Other issues (continued)

3. Economic Downturn	**Risk:** The current economic environment is likely to have a great impact upon many aspects of LBH's service delivery, as well as its strategic aims. There is also likely to be impacts upon transactions required to be undertaken, for example, number of benefits claimants may increase or reduction in number of planning applications and decrease in carrying value of land and buildings. **Deloitte response:** We have met with LBH regularly throughout the year to gain an understanding of the impact that the economic environment is having. We have carefully reviewed the budgets with the actual outturn as part of our review of the financial statements. We have also reviewed the performance to date in the current financial year, and have identified that there remains pressure on the forecast position at the year end. Whilst we have found that key areas of pressure remain, for example homelessness and asylum seeking spend, that these are being monitored by LBH. We note from a review of quarter 1 of 2009/10 that a further programme of £1 million in year savings has been put in place to address these pressures. Management have developed mitigating plans to address these pressures and remain confident of achieving a break even position at the year end.
4.Working with Hillingdon PCT	**Risk:** LBH has embarked upon an ambitious cost reduction plan to reduce expenditure across the whole range of services. Due to the current economic climate, there is an increased risk that the programme will not be met. **Deloitte response:** We understand that LBH continues to work closely with Hillingdon PCT on a range of projects to provide services through pooled budgets and cost savings initiatives. Internal Audit have reviewed these arrangements and have concluded that arrangements are satisfactory. LBH should continue to monitor such arrangements to ensure that pooled resources are effectively utilised and cost saving initiatives are delivered.
5.Comprehensive Area Assessment	**Risk:** CAA has replaced CPA as the means of performance assessment, with the scope being broadened from a particular organisation to service delivery across a local area. With the change of requirements, there is a risk that LBH will not be as well prepared as it was previously. **Deloitte response:** We have worked closely with LBH and the Audit Commission throughout the year to ensure that we can support LBH in preparing for this new assessment regime.

6.Asylum Seeker Funding and Expenditure

Risk: we have identified through discussions that there is key pressure upon the funding of services provided to asylum seekers within the Borough. The main issue relates to whether provision for the Over 18s will be fully funded in 2008/09 onwards as it was in 2007/08. We have also identified that LBH submits grant claims for funding of services provided to asylum seekers.

Deloitte response: Throughout the year, we have continually discussed this situation, and responses that LBH is taking towards this situation. We have found that there remains pressure in this area in 2009/10 and that, at the time of writing this report, an overspend of £1.6 million was forecast in this area. However, we have identified that LBH is monitoring the expenditure on this area closely.

Within our audit work we have identified that at the year end, LBH had recorded expenditure of £7,257k in respect of the Unaccompanied Children's Asylum Grant of which £5,036k is grant entitlement. The remainder of this balance, £2,239k, will be claimed through a Special Representations Bid.

SSAP 4 'Accounting for Government Grants' states that grants should not be recognised until *"...there is reasonable assurance that the grant will be received"*. The grant instructions indicate that a special representation bid can be made in exceptional circumstances, stating *"additional discretionary support to meet exceptional circumstances"*.

Whilst all local authorities are entitled to submit bids for Special Resolution funding, LBH is classified as a Gateway Authority which has supported LBH receiving 100% of claims submitted in the past. LBH believes there is reasonable assurance that this funding will be received, based upon:

- It's previous historic record of achieving the funding through the Special Resolution process;
- That the funding regime and framework has not altered within the past year, thereby increasing assurance that their approach will meet the requirements and criteria to secure this funding; and
- That the amount that they are seeking is not dissimilar to 2007/08 (£2.1 million) and therefore there has not been an unexpected increase in 2008/09 that they are seeking to claim.

We have included reference to the management's judgements outlined above suggesting that the Special Resolution bid will be successful, in the Management Representation Letter, as outlined in Appendix 4.

Subject to the finalisation of this letter, we have accepted this view.

2. Other issues (continued)

7.Cost Reduction Programme	**Risk:** LBH has embarked upon an ambitious cost reduction plan to reduce expenditure across the whole range of services. Due to the current economic climate, there is an increased risk that achievement of the programme will not be met. **Deloitte response:** We have met regularly with LBH throughout the year to assess the progress being made towards achieving the plan. We have incorporated progress in our assessment of the Use of Resources Key Lines of Enquiry. We have incorporated our assessment of the arrangements that LBH has in place to achieve economic, efficient and effective use of their resources, and this is outlined in Section 9. We have found that LBH achieved a cost reduction plan of £11.9 million in 2008/09, which is an achievement given the economic circumstances.

3. Financial performance and standing

We consider LBH's financial standing as part of our audit of the financial statements and this is an area we consider to be key in light of the current economic downturn. We have worked with LBH throughout the year to discuss and consider its approach to addressing these challenges. Being able to adjust and manage such challenges requires strong budgetary and financial management processes within an organisation.

There have of course been impacts upon LBH from the changes in the financial environment, and these have been recognised by LBH. They include:

- Reduction in income from key areas of service delivery, including planning applications;
- Reduction in interest received from investments;
- Increased demand for council services, for example, homelessness; and
- A reduction in the value of assets held by LBH and a reduction in income from disposals.

We are pleased to report that in the light of these circumstances, that LBH has had a successful year in managing its finances. Its net budgetary requirement was £187.3 million and against this it achieved an underspend of circa £1 million. We do recognise there is a deficit on the Income and Expenditure Statement of £68 million, which does not impact upon council tax payers. Indeed, LBH was able to achieve its aim of freezing its council tax level for its residents for 2009/10. The main cause of the deficit relates to impairments made to fixed assets during the year to reflect economic conditions, and LBH has fully disclosed this in a note to the Statement.

At the year end, despite these challenges, LBH was able to increase its total reserves to £33.9 million from £31 million. Within this, LBH has been able to increase its general fund reserve position from £12.6 million to £16.9 million. The increase is reserves has been a key achievement in the strategic aims of LBH, and is part of the outcome from the overall programme of seeking efficiencies across LBH in all areas of service delivery. It also increases the ability of LBH in facing future financial challenges.

LBH set itself a challenging programme of cost efficiencies of £11.3 million during 2008/09 which coincided with the economic downturn. Key areas of pressure in achieving this programme were due to funding issues around Asylum seekers, and reductions in planning and development income. We are pleased to note that LBH was able to achieve its programme. However, we also highlight the increasingly challenging environment within which LBH will be required to deliver its programme for 2009/10 of £14.8 million. The current economic challenges are likely to continue in the next year, and continue to impact upon the council, including increased demand for services. We have identified that at the end of the first quarter that there are already pressures arising from this which LBH is addressing.

3. Financial performance and standing (continued)

Through our review of performance in the year to date, we note that at the end of July forecast expenditure exceeds budget by £435k.

There are a number of key points in relation to this forecast that we have noted:

- LBH has identified a programme of £1 million in year savings that are required to be implemented in order to achieve the forecast year end position;
- There remains considerable pressure on Asylum spending, and currently expenditure is exceeding its assigned contingency by £1,620k;
- There are pressures on other contingencies also, specifically around mental health, transitional children and Homelessness;
- There is a stated intention to release up to £649k of reserves for Business Investment Improvement, enabling LBH to still achieve a year end forecast position of £12 million in reserves;

Overall, management continues to put mitigation plans in place to offset the current forecast overspend and achieve its forecast year end break even position.

LBH's capital expenditure in 2008/09 was £70.1 million, which included the completion of a number of locally high profile schemes, including Oak Farm School and Hayes Boxing Club. We have also considered the capital expenditure that has been budgeted for in 2009/10 in our review of performance to date. There has been some rephasing around the expenditure on the schools programme, but also note that there is potential of a reduction in capital receipts achieved by LBH, which could be potentially as low as £3.5 million. We recommend that LBH continues to monitor and manage this through its existing financial management framework.

4. Accounting policies and financial reporting

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the group's accounting policies and financial reporting are discussed below.

We have raised a number of amendments to the presentation of the accounts, each of which has been accepted and amended in the Statement of Accounts.

Accounting policies

The following accounting policies were identified as being significant for the 2008/09 accounts, and LBH have made each of these adjustments.

- 'Deferred Charges' are now referred to as 'Revenue Expenditure funded from Capital under statute'.
- 'Leasing' section has been amended to offer a more concise definition of Finance and Operating Leases.
- 'Financial Assets' and 'Financial Liabilities' sections are now included in place of 'Investments', 'Borrowing', 'Redemption of Debt' and 'Financial Guarantees.'
- 'Soft Loans' section has been excluded in 2008/09 as no such loans are held on the balance sheet.

Financial reporting

There are no outstanding issues that we bring to the attention of those charged with governance.

5. Materiality and identified misstatements

Materiality

The materiality level for LBH was calculated based upon gross expenditure of LBH. The materiality applied to the 2009 audit was £6.39 million.

We report to those charged with governance on all unadjusted misstatements greater than 5% of materiality or £319,500 unless they are qualitatively material.

Unadjusted misstatements

At the time of writing, total identified unadjusted misstatements decrease income by £1,935k.

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. A summary of the audit adjustments can be found in Appendix 1, and we discuss each below.

Errors of fact and differences in judgement

We have split misstatements below between Errors of fact and Differences in judgement.

5. Materiality and identified misstatements (continued)

Errors of fact

	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000		
		Earmarked Reserve	Assets	Liabilities
1 - Recognition of unconditional government grants				
Issue arising: We have identified that there were instances where government grants that did not have specific conditions attached to them had not been recognised as revenue. We identified the Preventative Technology Grant (£877k) and also the Access and Systems Capacity Grant (£21k). The impact of this unadjusted misstatement is that income in 2008/09 is understated.	£898k			Government creditors (£898k)

We have discussed this adjustment with senior management who are not proposing to adjust for this misstatement as they do not feel that it is material in the context of the financial statements

We recognise that LBH is undertaking considerable work to review debtor and creditor codes in 2009/10, as in some cases carry forward balances have built up, with year end creditors remaining on the balance sheet. LBH has identified examples where there is a genuine case for holding the balance as a creditor, for example where there are specific criteria attached to the grant which have not been fulfilled at year end. However, for others, for example, where there is no ring fencing around how the grant is used, there is a genuine case for posting the grant to the income statement.

5. Materiality and identified misstatements (continued)

	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000		
		Earmarked Reserve	Assets	Liabilities
2 – Impairment of Investments held in Icelandic Banks **Issue arising:** We have identified that, based upon the latest projected rate of return on investments held in Icelandic banks that a further impairment should be made to reflect the projected return. The impact of the unadjusted misstatement is that the carrying value of investments is potentially overstated by £35k.	(£35k)		Investments (£35k)	

Through discussion with senior management, they feel that this is not a material adjustment given that the estimate has been derived using Audit Commission guidance, which is being adjusted over time to reflect the likelihood of repayment. LBH will continue to monitor and report the position in relation to impairments of these investments. In overall terms, LBH believes the estimate materially reflects the impairment.

5. Materiality and identified misstatements (continued)

	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000		
		Earmarked Reserve	Assets	Liabilities
3 – Deferred revenue grants **Issue arising:** We identified Home Improvement Grants which had been carried forward within government grant deferred. As these fund revenue expenditure, they should be taken in full to income in the year in which they are applied. The impact of this is that liabilities are overstated and income understated. There is a compensating adjustment within the Statement of Movement on General Fund balances which means the effect on the General Fund is neutral.	£1,490k			Government grants deferred £1,490k

We have discussed this uncorrected adjustment with management. LBH consider this to be an isolated incident and immaterial. This will be written back in full to the Income and Expenditure Statement in 2009/10.

5. Materiality and identified misstatements (continued)

	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000		
		Earmarked Reserve	Assets	Liabilities
4 – Asylum Grant timing				
Issue arising: Due to the timing of grant claims for Asylum Seekers Support grants, Income and Debtors are overstated at year end. This has arisen as the year end process occurs before the grant submission date and therefore at the time of year end closing, estimates are made for grants. From actual grant claims submitted we can see that claim amounts are lower than original estimates.			Debtors	Provisions
	£267k		(£809k)	£1,076k
Additionally, we have recommended a reclassification between Provisions and Debtors to ensure any provisions made are presented alongside their associated debt.				

This adjustment has been discussed and agreed with Management. This will be amended in the accounts.

Management have stated that this is a timing issue only and has occurred as a result of the Council year end occurring before the grant claim form submission date.

5. Materiality and identified misstatements (continued)

Differences in judgement

	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000		
		Earmarked Reserve	Assets	Liabilities
1 – Imported Goods creditor				
Issue arising: LBH provides a service to check imported food at Heathrow airport, and although not a profit making service (rates are set by Central Government), surpluses have built up. We suggest that these should be released to the Income and Expenditure Statement.		Earmarked reserve (£1,584k)		Sundry creditors £1,585k

Management have concluded that this misstatement will not be adjusted for as it is immaterial to the financial statements, but will be adjusted in 2009/10.

Management have discussed the background to this misstatement with us. It arises from services that LBH provide on imported food which is checked in line with regulations at Heathrow Airport. Fees for these services are set by Central Government and, although not a profit making service, surpluses have built up over a number of years. LBH recognise that this balance should not be classified as a creditor, but that further work is being undertaken in 2009/10 to determine the correct classification (some is likely to become an earmarked reserve, and some maybe released to the general fund reserve). Work is on going to consider this an appropriate action to be taken during 2009/10

5. Materiality and identified misstatements (continued)

	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000		
		Earmarked Reserve	Assets	Liabilities
2 – Council Tax Bad debt Provision **Issue arising:** The Council Tax bad debt provision is calculated based on analysis of aged debt. Review of the provision shows that the Council presently provides for only 15% of debts less than 5 years old which have been referred to Bailiffs. We would expect a low recovery for this debtor category and have proposed a likely provision of 95% debts in line with the Council's other provision categories. An adjustment has also been proposed to provide for 100% of debts over 4 years old as low recovery is expected for these old debts. The sum of the adjustments discussed above are included in this table.	(£3,781k)		Debtors (£3,781k)	

Management response: In comparison to other London Boroughs, Hillingdon is very proactive in the recovery of CTAX arrears, therefore the level of provision in Hillingdon would be lower than in other London Boroughs. However, we do agree that the methodology on which we base the calculation of that provision should be reviewed and this will be started shortly and be ready for use in the 2009/10 accounts.

5. Materiality and identified misstatements (continued)

	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000		
		Earmarked Reserve	Assets	Liabilities
3 – Non Domestic Rates Bad debt Provision **Issue arising:** The Non Domestic Rates bad debt provision is calculated based on analysis of aged debt. Testing performed shows that this provision is lower than we might expect. Considering the current economic climate and a rise in bankruptcies and liquidation of small companies, we would expect an increase in the bad debt provision on previous years. Our sample testing of debtors is consistent with the above statement and shows minimal recoveries of Non Domestic rates debt post year end. As a result we have proposed an adjustment to increase the provision to prior year levels.	(£774k)		Debtors (£774k)	

Management response: The in year collection rate for non domestic rates during 2008/09 were maintained at the levels achieved in 2007/08. As a result Hillingdon had the 2nd highest collection rate in London. The effect of the recession therefore had little impact on collection rate in 2008/09. The collection rate to August 2009 is also higher than that achieved to August 2008, so the recession appears to be having little impact on the rate in 2009/10. However, if the recession does start to impact on the collection rate then the provision will be adjusted accordingly.

6. Accounting and internal control systems

Control observations

During the course of our audit we identified a number of control observations, the most significant of which are detailed below. Details of further recommendations with lower priorities can be found in Appendix 3.

Observation 1: Third Party Access to systems	Northgate have unrestricted administrative access to a number of areas including iWorld Revenues & Benefits application via the ‘RB’ account and Oracle Financials application via the ‘FJSUSER’ and ‘NORTHGATEDBA’ account. There is an increased data security and integrity risk if third party service providers are granted access to the production environment, including - There are few practical controls that can be performed to review the actions of developers within the live environment; - There is a temptation for programmers to make modifications directly to the programs in the live environment, bypassing system implementation and maintenance procedures and potentially corrupting live information; and - There is potential for developers to change data and tables in the live environment, which could lead to corrupt data, fraud and deleted transactions.
Recommendation	We recommend that management consider adopting appropriate controls to ensure access from third party Northgate to the systems is appropriately restricted and monitored, in particular: - All activities performed by a third party should be accountable to an individual, logged and reviewed; - IT management should verify all program changes made before being copied to the live environment; - All accounts used by third party staff should be disabled after they have completed their tasks.

6. Accounting and internal control systems (continued)

Management response	Agree with the recommendations and observations All log in ids will be reviewed to ensure that actions taken under that sign in are accountable to individuals. Procedures will be put in place that will link the actions of developers with authorised change controls. However Northgate have a contract to support, maintain & develop systems so that constantly disabling accounts may not be the best solution. However procedures will be put in place to constantly monitor the access and use of these accounts. One proposal is for the UNIX based services, each time somebody logs in a script is run which prompts for user name, incident number being investigated or reason for accessing the system and a time stamp.
Observation 2: Shared Administrator User Accounts	On Unix, Windows, Oracle Financials and Oracle Database it was noted that a number of accounts with high privileged access were not accountable to an individual user. Shared user accounts reduce the accountability for actions performed on the system and actions performed can be difficult to trace to a specific user.
Recommendation	We recommended management consider reviewing all user accounts which are not uniquely accountable to an individual and where they are not required remove the accounts. For those accounts which are required management should ensure that actions by the accounts are logged to a specific user.

6. Accounting and internal control systems (continued)

Management response	Agreed. All accounts will be reviewed with the objective of removing generic user accounts The number of administrator accounts in the Revenues & benefits area will be reviewed to ensure that staff have appropriate access to carry out their duties. Procedures will be put in place to review this on a regular basis, say every 6 months. Procedure is already in place (for Financials) based on Screen Audit logs which reviews system access. Business managers will review the access to applications and put in place procedures to carry out regular reviews, these may take the form of spot checks.
Observation 3: User administration - Number of administrator accounts for iWorld Revenues and benefits	On the Revenues and Benefits system it was noted that there were a number of business users with administrator access. This reduces the segregation of duties between business transactional needs and the maintenance of the application. Having a large number of administrators increases the risk that members of staff may have inappropriate access rights affecting the integrity and accuracy of data.
Recommendation	We recommend that management consider consolidating Administrator accounts so that only users who require access to maintain the system have this level of access.
Management response	Agreed. See response to 2 above.

6. Accounting and internal control systems (continued)

Observation 4: User administration – Access Rights Review	It was noted that there is no formal review of users' access on Windows or any application to ascertain:- - the appropriateness of user access rights and privileges; and - whether accounts exist for employees that have left the organisation. Failure to review the appropriateness of access rights may mean that privileges are no longer valid or are beyond a user's current need. If unnecessary access privileges are not removed, there is a risk of unauthorised access to systems and data.
Recommendation	We recommend that management consider establishing formal periodic reviews of all user accounts. This should include the following checks: - No user IDs exist for members of staff who have left the organisation; - User permissions should be appropriate for staff job functions; and - Those user IDs that have not been used for a significant period (for example 30 days) should be investigated and deleted or disabled, where appropriate. Business managers should be involved in this review to ensure that they are aware of the level of access assigned to an employee in the application. The review and any resulting actions should be documented, approved and retained.
Management response	Agreed. See response to Observation 2 above

6. Accounting and internal control systems (continued)

Observation 5: User administration – removal of leavers	One of the 15 leavers tested had not been removed the Oracle application and a further 2 users had not been removed from the iWorld Revenue & Benefits application.
Recommendation	We recommend that management implement a leavers process which ensures all system access is removed in a timely manner.
Management response	Agree with the observation and recommendation A procedure will be put in place which will require a report from the payroll system on a monthly basis which will be used to remove leavers from all systems, this should ensure that system access is removed in a timely manner Procedure is already in place (for Financials) which uses the Payroll Report on a monthly basis.

6. Accounting and internal control systems (continued)

Observation 6: Password controls

The following opportunities for improved password controls were identified:-

- Oracle Financials password are not required to be complex and 60 users do not have enforced expiry enabled.
- Oracle Database passwords have a minimum enforced length of 1 and no other password settings (although in practice a minimum of 6 was used)
- I-World Housing has no enforced password complexity or change. Users with the "Default" privileges only require a password of 4 characters.
- Novell passwords are set on a user-by user basis and it was noted that passwords did not always required to be 6 characters in length, include enforced change or require complexity.

Without adequate enforced password parameters there is an increased risk of unauthorised access to systems and passwords becoming common knowledge amongst system users. There is also a risk of attempted or successful unauthorised access to systems and data being undetected.

Recommendation

We recommend that management consider reviewing the password parameters of iWorld Housing, Oracle Financial, Oracle database and Novell to increase the system security for example:-

- passwords should be enforced to have a minimum of 6 characters;

- password complexity should be enforced;

- enforcing password changes after 30 - 60 days;

- a history of the previous 10 passwords should be kept and users should be prevented from changing their password to one on this list;

- the lockout threshold should be set to 3 invalid login attempts;

- locked accounts should only be reset by an administrator

6. Accounting and internal control systems (continued)

Management response	Agree with the observations and recommendations Password Parameters will be reviewed in all application area to increase system security by adopting best practise and where necessary work with Application Providers to recommendation changes in system security. Novell - This has been addressed by the requirements of the CoCo.
Observation 7: Classification of accounting treatment for the carry forward of unconditional grants	Some revenue grants are awarded with no conditions attached regarding what the grant must be spent on, and over what period. There is a gradual move to more grants being awarded to support expenditure in certain areas, but with no strict terms attached. SORP guidance would require grants of this type to be recognised as revenue in the year of award. Unspent balances may be classified as earmarked reserves rather than creditors.
Recommendation	We understand that historically some grants in this category may have had clearer terms applied to them, and that arguably there is an implicit expectation that a grant will be spent on specific items of expenditure and future grants may be at risk if this expectation is not met. However, technical accounting rules within the SORP do not allow these balance to be carried as creditors where there is no requirement to repay unspent balances after a period of time. We recommend that a review of credit balances related to grants is undertaken to identify whether there is an obligation on the Council to repay unspent balances, and the remaining amounts are released to income. The Council may want to ensure balances continue to be spent in a certain way by using the earmarked reserve authorisation processes. We have audited all material balances as part of our audit testing relating to this area.

6. Accounting and internal control systems (continued)

Management response

In order to quantify this, LBH is in the process of reviewing all old grants, determining how they have been used and classified.

Historically some revenue grants have been posted straight to the balance sheet and taken to revenue from there with year end balances remaining on creditors. This may be appropriate for accounts such as tenants rents that are operated on a full in-year accrual system basis, but in general revenue grants will now be posted to I/E with any remaining balances sent to creditors only if SORP criteria have been met. Otherwise, any such balances will be posted to earmarked or general reserves.

Fresh guidance on the treatment of Revenue grant has been issued and placed on the Financial Management Toolkit Intranet site.

7. Matters for communication to those charged with governance

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

In our professional judgement we are independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner and audit staff is not impaired. In respect of our consideration of the retention of the audit engagement for the period commencing 1 April 2009 we confirm that we will comply with the APB Ethical Standards for that period. Details of our independence policies and safeguards are provided in Appendix 4.

International Standards on Auditing (UK and Ireland)

International Standards on Auditing (UK and Ireland) (“ISAs (UK and Ireland)”) require we report on a number of additional matters. These are set out in Appendix 4.

We consider that there are no additional matters in respect of the above to bring to your attention that have not been raised elsewhere in this report or our audit plan.

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit and adjusted our audit approach as deemed appropriate. The results of this were:

- Reviewed key areas and components, and agreed additional targeted work in areas of procurement and fraud and corruption

8. Corporate Governance and our responsibilities

Annual Governance Statement (AGS)

In June 2007, CIPFA in conjunction with the Society of Local Authority Chief Executives ("SOLACE"), published 'Delivering Good Governance in Local Government'. The framework replaces the previous CIPFA/SOLACE framework 'Corporate Governance in Local Government – A keystone for Community Governance: Framework' which was published in 2001.

The framework has introduced from 2007/08 and integrated Annual Governance Statement (AGS).

The AGS covers all significant corporate systems, processes and controls, spanning the whole range of an authority's activities, in particular those designed to ensure that:

- The authority's policies are implemented in practice;
- High quality services are delivered efficiently and effectively;
- The authority's values and ethical standards are met;
- Laws and regulations are complied with;
- Required processes are adhered to;
- Financial statements and other published performance information are accurate and reliable; and
- Human, financial, environmental and other resources are managed efficiently and effectively.

Our review is directed at:

- Considering the completeness of disclosures in the Annual Governance Statement and whether it complies with proper practice identified by CIPFA; and
- Identifying any consistencies between the disclosure and the information that we are aware of from our work on the audit for the financial statements and other work related to the Code of Audit Practice.

8. Corporate Governance and our responsibilities (continued)

Our findings

We have reviewed the Authority's AGS in line with the requirements above. At the time of writing, and after discussion, we recognise that LBH is updating this statement for latest findings following LBH's internal certification process. Subject to this final statement being reviewed, and the additions being appropriate, we are anticipating concluding that the AGS includes all appropriate disclosures and is consistent with our understanding of LBH's governance arrangements and internal controls derived from our audit work.

9. Value for Money (VFM) conclusion

The VFM Conclusion

Under the Code of Audit Practice 2008 (the Code), auditors are required to include a positive conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements is defined in the Code as comprising corporate performance management arrangements and financial management arrangements. This conclusion is given within our audit report on the Authority's accounts.

The conclusion is limited to an assessment of nine criteria specified by the Audit Commission under the Use of Resources (UoR) methodology. The UOR assessment consists of judgements against ten key lines of enquiry (KLOE) which focus on financial management but also link to the strategic management of the Authority. The KLOE cover a range of topics including how financial management is integrated with strategy and corporate management supports council priorities and delivers value for money. Assessments are carried out annually, as part of each council's external audit. For London Boroughs, the Commission has specified that nine of the ten KLOE will be considered for 2008/09.

Where, in our judgement, there are gaps in the arrangements which are significant enough, we qualify our conclusion in relation to particular criteria, either on an 'except for' basis (that is the Authority has put in place proper arrangements except for…..) or in the form of an 'adverse' conclusion (that is the Authority has not put in place arrangements in that…). Based on the guidance we have received from the Audit Commission, where qualified, our report refers only to the criteria which we conclude have not been met, without providing further details.

For the purposes of the conclusion required by the Code, auditors are required to apply a yes/no assessment to the applicable Code criteria, that is the audited body either has proper arrangements in place or not.

9. Value for Money (VFM) conclusion (continued)

Our findings

We would like to take this opportunity to acknowledge the high quality of the self assessments that LBH prepared and submitted for this review, especially taking into account the tighter deadlines that were in place this year.

We are pleased to report that consider we consider that based upon our review, we expect to issue an unqualified value for money conclusion.

Code criteria	KLOE	Conclusion
1. Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	1.1	Yes
2. Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	1.2	Yes
3. Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	1.3	Yes
4. Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	2.1	Yes
5. Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	2.2	Yes
6. Does the organisation promote and demonstrate the principles and values of good governance?	2.3	Yes
7. Does the organisation manage its risks and maintain sound system of internal control?	2.4	Yes
8. Is the organisation making effective use of its resources?	3.1	Yes
9. Does the organisation manage its assets effectively to help deliver its strategic priorities?	3.2	Yes

We made a number of recommendations in relation to Use of Resources, and have outlined these in our Use of Resources report presented to the Audit Committee on 22 September 2009. We are pleased to report that our recommendations have been agreed and appropriate action plans and arrangements developed to address these.

10. 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 audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities.

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of London Borough of Hillingdon Council's system of internal financial 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.

We view this report as part of our service to you for use as Members for corporate governance purposes and it is to you alone that we owe a responsibility to 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 purpose. It should not be made available to any other parties without our prior written consent.

If you intend to publish or distribute financial information electronically, or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon and for the controls over, and security of the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

Deloitte LLP
Chartered Accountants

Birmingham

22 September 2009

Appendix 1: Audit adjustments

Unadjusted misstatements

We report all individual identified misstatements in excess of £319,500 and other identified misstatements in aggregate which have not been adjusted by management in the table below.

	Note & explanation	Credit/\ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000
Errors of fact			
(1) Recognition of unconditional government grants	[1]	898	898
(2) Impairments for investments held in Icelandic Banks	[2]	(35)	(35)
(3) Deferred revenue grant carry forward	[3]	1,490	1,490
(4) Asylum grant	[4]	267	267
Differences in judgement			
(5) Imported Goods creditor	[5]	-	-
(6) Council Tax bad debt provision	[6]	(3,781)	(3,781)
(7) Non Domestic Rates bad debt provision	[7]	(774)	(774)
Total		**1,935**	**1,935**

Appendix 1: Audit adjustments (continued)

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

[1] We have identified that there were instances where government grants that did not have specific conditions attached to them had not been recognised as revenue. We identified the Preventative Technology Grant (£877k) and also the Access and Systems Capacity Grant (£21k). The impact of this unadjusted misstatement is that income in 2008/09 is understated.

[2] We have identified that, based upon the latest projected rate of return on investments held in Icelandic banks that a further impairment should be made to reflect the projected return. The impact of the unadjusted misstatement is that the carrying value of investments is potentially overstated by £35k

[3] We identified Home Improvement Grants which had been carried forward within government grant deferred. As these fund revenue expenditure, they should be taken in full to income in the year in which they are applied. The impact of this is that liabilities are overstated and income understated. There is a compensating adjustment within the Statement of Movement on General Fund balances which means the effect on the General Fund is neutral.

[4] We have identified a number of adjustments relating to the Asylum Seekers Support grant. Due to the timing of the submission, the Council has overstated income and debtors but the amount disclosed above.

[5] LBH provides a service to check imported food at Heathrow airport, and although not a profit making service (rates are set by central Government), surpluses have built up. We suggest that these should be released to an Earmarked Reserve.

[6] Review of the Council Tax provision shows the provision to be lower than we would expect. An adjustment has been proposed to increase the provision for Bailiff debtors and debts over 5 years old.

[7] Review of the Non Domestic Rates provision shows the provision to be lower than we would expect. An adjustment has been proposed to increase the provision to prior year levels.

Appendix 1: Audit adjustments (continued)

Recorded audit adjustments

We report all individual identified recorded audit adjustments in excess of £319,500 and other identified misstatements in aggregate adjusted by management in the table below.

	Note & explanation	**Credit/ (charge) to current year income statement £'000**	**Increase/ (decrease) in net assets £'000**
Errors of fact			
(1) Surestart creditor	[1]		Govt. debtors (368) Govt. creditors 368
(2) Reclassification of year end balance relating to FE Pension Scheme	[2]		Govt. Debtors 80k Govt. Creditors(80k)
(3)Correction to overstatement of debtors and creditors relating to school balances	[3]		Other public body debtors (648) Other public body creditors 648

Appendix 1: Audit adjustments (continued)

	Note & explanation	**Credit/ (charge) to current year income statement £'000**	**Increase/ (decrease) in net assets £'000**
Errors of fact			
(4) Reclassification of debit balances	[4]		Govt. Debtors 4,299 Govt. Creditors 4,299
Differences in judgement			
Total			nil

[1] An adjustment to Surestart funding to correctly reflect the year end balance as a creditor.

[2] An adjustment to reclassify debtors and creditors in relation to the FE Pension Scheme

[3] An adjustment to correct the overstatement of both debtors and creditors relating to year end schools balances, to ensure both are fairly stated.

[4] An adjustment made to the reclassification of debit balances in creditors, relating to the housing benefit claim.

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure deficiencies to enable audit committees to evaluate the impact of those matters on the financial statements. We have worked with management and minor presentational issues have been amended for.

Appendix 2: Internal control recommendations

Ref.	Observation	Recommendation	Management response
1	**Oracle Change Control Process** Business Approval of Changes User requests do not have to be approved by Oracle Financials management before the contract managers within the organisation forward the change to Northgate for implementation. Therefore, there is a lack of business management visibility of changes being made. Where no business approval is obtained prior to implementation there could be a risk that changes made could mean delivered changes do not meet end user expectations or management intentions.	We recommend that management consider implementing a process to obtain business management approvals for all change requests prior to implementation for application systems in particular Oracle Financials.	Agree with the observations and recommendations Changes have been made to the approval of all application change requests, these will be further reviewed with the objective of implementing a more robust change management process.

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
2	**Oracle Change Control Process** Retention of Test Material For the changes tested it was noted that no formal testing documentation is required or retained. Where testing documentation is not retained there is a risk that the testing information won't be available to all stakeholders for review for go-live sign off leading to changes being implemented where testing coverage has not been met.	We recommend that management consider implementing a policy to ensure all testing documentation is signed off by management and retained centrally.	Agree with the observations and recommendations A process will be developed for the retention of test material, scripts and results to be held centrally and linked to authorised Change Controls.

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
3	**Audit Logging** Audit logging is not enabled on the Oracle database. It was also noted management does not review the audit logs produced from the IWorld Revenue and Benefits or Oracle Financial application. Where audit logs are not enabled and actively reviewed by management there is a risk that actions performed by user accounts which are not required for the job role or not as expected may go undetected.	We recommend that management enable the logging with the Oracle database and review the audit logs produced by IWorld Revenue and Benefits and Oracle Financials application system periodically to ensure the actions provided by all accounts are appropriate.	Agree with the observations and recommendations Audit logging with be reviewed with the objective of improving system security and implementing procedures that will review audit logs on a regular basis. Whilst at the same time ensure that system performance is not degraded.
4	**Notification of back up status** Management are not informed of the status of the nightly ResourceLink backups which are performed by Northgate. If backups are not clearly recorded as successful, and signed off as complete, failed backups may not be recognised and dealt with on a timely basis. If backups are not successful it may be impossible to restore system data if required.	We recommend that management request and review backup status updates to ensure the ResourceLink systems backups are being run as per policy without any ongoing errors.	Agree with the observations and recommendation NIS have outlined how the backup solution works. As part of the solution that alerts are raised to the support staff if any part of the backup has had a problem. These are then investigated as and when they occur. Since the backups are completed daily, if, in the unlikely event of a problem there will always be the previous days backup to roll back to with the option of then applying the incremental updates for the previous day. Procedures will be developed to ensure that status of application backups are formally reviewed on a monthly basis.

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
5	**Purchase Order System** Facilities Management have their own system for raising POs instead of using iProcurement. This reduces the risk of lack of management awareness around transactions, and therefore, increased risk of financial and reputational risk to LBH.	We recommend that all departments use iProcurement as a method of raising POs, and that staff are reminded of this guidance to ensure consistency across LBH.	FM do use the Oracle system in line with other departments as a method of raising PO,s for works carried out Boroughwide. However when working with schools we have to send out an invoice and have to use the Apricot ordering system. FM have been requesting for a long time to find a way for the Oracle system to be able to produce the required paperwork necessary for an invoice to be raised. The complication appears to be where we have to show the cost of the works and our fee as a separate cost to generate an invoice. Work will be done to determine if we can find a way forward with this and then we would accept the recommendation.
6	**Reconciliation sign-off** Although a reconciliation between Northgate and Oracle is performed, there is no evidence that a review has been carried out of this reconciliation. Without evidence of review, there is an increased risk that errors may go undetected.	We recommend that all reconciliations are reviewed, signed off, and dated, on a timely basis as evidence of review.	There is an electronic reconciliation done as part of the normal monitoring process and signed off. This is reviewed by Principal Officers and then dated and signed off on the reconciliation spreadsheet. Access to the spreadsheets is restricted to the Quality Control Team and senior managers. In additions each time a HB return is prepared or the mid and final HB claim a further detailed reconciliation has to be carried out as part of the preparation of the claim. The DWP electronic claim form has built in controls including error checking mechanisms and any highlighted errors have to be resolved. The reconciliation is then reviewed by external audit as part of the specific annual HB Subsidy audit.

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
7	**Maintaining master supplier file** There is no evidence that the master file is reviewed on a regular basis. If the supplier master file is not updated, there is increased that old or unsuitable suppliers may be used. This causes an inconvenience to the council as the goods will have to be reordered and is an administrative burden, and potential increased financial burden of using inappropriate suppliers.	We recommend the supplier master file should be reviewed at least annually. In addition, any suppliers which have not been used in the year should be disabled or maintained with supporting evidence for the reason.	Agree with recommendation. Will request Oracle report to show suppliers not used within the last 12 months and have these made inactive. New suppliers that we know will only be used as one off suppliers are automatically set up with an inactive date for 3 months ahead. Procurement and P2P team to review the master contractors list and master file are compatible.
8	**Sundry Debtors Request Forms** There is no evidence that request forms are checked by the income team to ensure that there is a valid debtor. This increases the potential risk of financial loss to LBH, for example, if debtors are raised in error and outstanding amounts cannot be recovered.	We recommend the request form should be updated so that there is a section where an authorised approver can sign off showing that they have reviewed the request.	Work is underway to make the whole process electronic and remove manually completed forms. Currently there is no facility to have an approval step in this process. This recommendation will be taken by to the supplier to discuss and consider the options available to introduce such an approval process.

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
9	**Old debit/ credit balances** We have identified that in many circumstances, within an individual cost centre, corresponding debit and credit balances do not reverse the previous entry, and may instead be put to slightly different ledger codes. Although the net balance within one cost centre is correct, there is an increased risk that both creditors and debtors could be overstated. In addition, having a larger number of balances on the system than necessary makes the task of reconciling, monitoring and preparing accounts much harder than necessary.	We recommend that an exercise is undertaken to match off and clear down account codes with corresponding debit and credit balances which should have been posted against each other. We further recommend that guidance around these procedures is reiterated.	Observation agreed. Following identification of the error, the corporate finance team has reviewed all similar cost centres and adjusted draft financial statements accordingly. A full balance sheet review is currently underway with a major emphasis on debtor / creditor accounts. This has led to much 'tidying up' of account codes coupled with a renewing of guidance and training for finance staff around coding structures, treatment at year end and importance of account code reconciliation (alongside the management cost centre reconciliation).

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
10	**Review of NNDR and Council Tax credit balances** Through our testing, we have come across credit balances in NNDR and Council Tax creditors that are older than 7 years, which should have been written off. There is a risk that financial statements could be misstated if this area is not addressed.	We recommend that a review of the ageing of NNDR / Council Tax creditors is undertaken and that this is performed regularly going forward (at least on an annual basis to ensure that no overstated of the creditor balances in the annual accounts exists).	Extensive work has been done over the last couple of years to reduce such balances and this is now established as an annual process. The current creditor balances over 7 years old for both NNDR and Council Tax amount to less than 0.1% of collectable debt and so should not lead to material misstatement. In the case of Council Tax 86% of this balance relates to 2002 that will be reviewed this year and either written on or refunded if the creditor can be located. Similarly for NNDR extensive work has been carried out to reduce credit balances over the last few years and this can be evidenced by the fact that there are now 8 years pre 2002 with zero credit balances.

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
11	**Review of classification of creditors** From our testing, we have identified balances which should have been classified as earmarked reserves. Some of these are old balances which are no longer valid creditors, whilst some represents incorrect accounting treatments of income. Through this, there is an increased risk that financial statements are misstated and potentially available financial resources within the Council are not utilised.	We recommend that LBH perform a full review of creditor balances and implement controls at departmental level to monitor classification of income.	Observation agreed. A full creditors review is currently underway, alongside the introduction of measures to ensure corporate 'strengthening' of balance sheet management throughout the year. There are a number of balances that 'started life' as genuine creditors for which balances have not always been cleared or reviewed in subsequent years which could lead to them being reclassified as earmarked reserves. In addition, new guidance has been issued to support the correct treatment of all revenue income, particularly regarding revenue grants and the conditions to be met before sending to creditors at year end. The monitoring of this will be undertaken via the corporate balance sheet management team throughout the year.

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
12	**Review of Importer Fees balances** LBH collects fees from importers for performing services to ensure imports meet regulations. These should not be a profit generating activity, but LBH has managed to accumulated surpluses after paying costs of performing the services. The surplus would either be reinvested into the services, i.e. in providing staff training, or refunded to the importers. However, there is a risk that repayment to importers may no longer be a viable solution (for example, if they are no longer in business) and therefore some of these balances are no longer valid creditors and should be classify as earmarked reserves.	We recommend that LBH should clarify the position around how the surpluses that have arisen should be used.	Observation agreed. Fees are set by Central Govt with service intended to be non-profit making but self-financing however surplus have built that should really be sent to reserves, either general or earmarked depending on conditions of charging. Furthermore, historically some administration for this team was Civic Centre based, hence some of these monies should have been sent to I/E to support these costs. A full review of this account is currently underway.

Appendix 2: Internal control recommendations (continued)

Ref.	Observation	Recommendation	Management response
13	**Void Properties** Through our testing we have noted a high rate of void garages – i.e. garages owned by the Council for rent which no-one is renting. Approx 38% of garages appear to have been voids through 2008/09, which relates to approximately £670,000 of lost income at the current rate of £10/week per garage. While these properties are void, the Council is still responsible for maintenance of them. At any time, Council's should be looking to maximise income through optimal use of their assets in order to support services for their local residents. This is even more important in the current economic climate.	We recommend that as part of the Council's capital asset programme, plans for garages are reviewed. There may be a strategy behind the high level of voids of which we are unaware. If there is not, then we would question whether the land may be used more effectively or be available for disposal, or whether increased publicity of the availability of garages or revision to the charges for garages may be made which could increase revenue generation.	There are a number of 'work streams' that are being used to manage the garage stock and these have identified the following causal effects and possible solutions to the problems outlined. **Reasons for level of voids** Some sites have been earmarked as HRA pipeline sites; Some sites are difficult to let due to their location and/or condition; Some sites have been identified for demolition due to high maintenance costs; Tenancy agreement only allowed for the use of garage for a motor vehicle. **Measures that have been used to try to increase demand** Demolition of high maintenance/poor condition garage blocks and conversion into hardstanding car parking; Advertising in local papers to try to stimulate demand; Change in terms of tenancy agreement, in consultation with planning authority, to allow garages to be used for storage ancillary to domestic use in addition to a motor vehicle.

Appendix 3: Draft audit opinion

Independent auditor's report to the Members of London Borough of Hillingdon

Opinion on the Authority accounting statements

We have audited the Authority and Group accounting statements and related notes of the London Borough of Hillingdon for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the Authority and Group accounting statements and related notes as described in the contents section and consider whether it is consistent with the audited Authority and Group accounting statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In our opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and

- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

We have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer's responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements and the Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In our opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, We are satisfied that, in all significant respects, London Borough of Hillingdon made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gus Miah (Engagement Lead)

For and behalf of Deloitte LLP

Appointed Auditor

Birmingham, UK

22 September 2009

Appendix 4: Draft Management Representation Letter

Deloitte LLP
4 Brindley Place
Birmingham
B1 2HZ

Our Ref:* *GM/PRH/HVH ***Date: XX September 2009***

London Borough of Hillingdon – Audit of the annual accounts for the year ended 31 March 2009

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 2009 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of the London Borough of Hillingdon as of 31 March 2009 and the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework.

We acknowledge our responsibilities for preparing financial statements for the Council which presents fairly 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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and relevant committee 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 all the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Appendix 4: Draft Management Representation Letter (continued)

4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Council involving:

   (i). Management;
   (ii). Members of the Council;
   (iii). Employees who have significant roles in internal control; or
   (iv). Other parties 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 Council's financial statements communicated by employees, former employees, analysts, 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. We have considered the uncorrected misstatements and disclosure deficiencies detailed in the report to the Council. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.

8. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the members, 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 Council. Any significant changes in those values since the balance sheet date have been disclosed to you.

9. 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 Council and confirm that we have disclosed in the financial statements all transactions relevant to the Council and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS8 "Related party disclosures" or other requirements.

10. We have considered all claims against the Council and on the basis of legal advice have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.

11. No other legal claims have been received or are expected to be received that would have a material impact on the annual accounts.

Appendix 4: Draft Management Representation Letter (continued)

12. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

13. We confirm that we are of the opinion that the Council is a going concern, that we have disclosed to you all relevant information of which we are aware and which relates to our opinion, and that all relevant facts are disclosed in the financial statements.

14. There have been no irregularities involving members 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.

15. The financial statements are free from material misstatement.

16. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

17. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets.

18. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your auditors report and for the controls over, and security of, the website. We also recognise that we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.

19. 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 accord with the Members' 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.

The amounts included in the financial statements derived from the work of the actuary are appropriate.

Appendix 4: Draft Management Representation Letter (continued)

20. We confirm that the methodology used by management to estimate the increase in value to fixed assets as a result of expenditure on those assets represents the best estimate of the value added.

21. All known material liabilities have been properly included in the annual accounts and all material contingent liabilities have been disclosed.

22. We have adhered to guidance and used this to calculate the impact of any impairment on our investments, and have disclosed these fully in the accounts.

23. *We confirm that the provision in respect of the Equal pay has been calculated to include all potential future claims and are satisfied that no liability exists prior to July 2003.*

24. *We confirm that the dilapidation provision has been calculated to take into consideration all expected future costs associated with the Annington Homes Lease.*

25. *We confirm that the provision for bad debts in relation to council tax and NNDS is appropriate.*

26. *We confirm that we consider an adjustment to increase the bad debt provision by £2.2 million relating to the outstanding debtor for Asylum Seekers Grant is inappropriate based upon our belief that funding will be secured due to:*

- *Previous historic record of achieving the funding through the Special Resolution process;*
- *That the funding regime and framework has not altered within the past year, increasing assurance that the approach will meet the requirements and criteria to secure this funding; and*
- *That the amount that being sought is not dissimilar to 2007/08 (£2.1 million) and therefore there has not been an unexpected increase in 2008/09 that they are seeking to claim.*

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 London Borough of Hillingdon

Appendix 5: Matters for communication to those charged with governance

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	In our professional judgement we are independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner and audit staff is not impaired. In respect of our consideration of the retention of the audit engagement for the period commencing 1 April 2009 we confirm that we will comply with the APB Ethical Standards for that period.
Non-audit services	We are not aware of any inconsistencies between APB Ethical Standards and the Authority's policy for the supply of non audit services or of any apparent breach of that policy. There were no non-audit services performed in the year.

Appendix 5: Matters for communication to those charged with governance (continued)

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 immediate family member is allowed to hold a financial interest in any of our UK audit clients; • require that professional staff or any immediate family member may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; • state that no person in a position to influence the conduct and outcome of the audit or any immediate family member should enter into business relationships with UK audit clients or their affiliates; • prohibit any professional employee from obtaining gifts from clients unless the value is clearly significant; 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.

Appendix 5: Matters for communication to those charged with governance (continued)

International Standards on Auditing (UK and Ireland)

International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") require we report on the following additional matters:

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 Other information in documents containing other audited financial statements

We consider that there are no additional matters in respect of the above to bring to your attention that have not been raised elsewhere in this report or our audit plan.

Appendix 5: Matters for communication to those charged with governance (continued)

Safeguards and procedures to ensure independence

- 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.Review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond auditing standards, and ensures the objectivity of our judgement is maintained.

- We report annually to the Authority 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 audit partners in accordance with our policies and professional and regulatory requirements.

- In accordance with the 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.

- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board for Accountancy (POBA) which is an operating body of the Financial Reporting Authority. The Firm’s policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POBA, and the ICAEW’s Quality Assurance Directorate (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 POBA and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies. The AIU and QAD do not publish individual inspection reports and we are not permitted to disclose details of their findings.