

EXTERNAL AUDIT ANNUAL GOVERNANCE REPORT

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SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2008/9 Statement of Accounts and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money audit). Regulations require that the auditor's report is communicated to those charged with governance before the accounts are formally signed off on 30 September 2009.

The report is currently in draft pending the conclusion of the audit. It is expected the audit will be largely complete by the time the committee meets and a verbal update on progress will be given at the meeting.

Since the approval of the accounts on 29 June 2009 a number of amendments have been identified by both the Corporate Accountancy team and Audit that have been discussed and agreed and the financial statements have been amended to reflect these changes.

The auditor has indicated that he expects to issue an unqualified opinion on the Financial statements on 30 September 2009. An unqualified opinion is also expected on the Value for Money audit.

RECOMMENDATIONS

The Committee notes -

The audit adjustments, both recorded and unadjusted, set out in the attached report from page 17 and in Appendix 1.

The internal control recommendations as set out in the attached report from page 25 and in Appendix 2.

The progress made and actions being taken to continue to improve the quality and accuracy of the information contained within the accounts and to address the matters raised in the report.

REASONS FOR OFFICER RECOMMENDATIONS

It is a requirement that the conclusions of the audit set out in the report are communicated to those charged with governance prior to Deloitte giving their formal opinion on the financial statements.

INFORMATION

International Standard on Auditing Report 260 (ISA 260)

The draft Statement of Accounts was approved by the committee on 29 June 2009. The Council's auditor, Deloitte, is responsible for undertaking an audit of these accounts. The outcome of the audit is set out in the attached report.

The ISA 260 requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:

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

In addition, the Auditor requires a "Management Representation Letter" to be signed by management and the Committee. The contents of this letter are set out at Appendix 4. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON CONTENTS OF THE REPORT

Financial Performance and standing

The report details the Audit view on the general financial performance of the Council and concludes that, despite considerably challenging circumstances, the Council has had a successful year in 2008/09 in managing its finances. Deloitte recognise the significant achievement of the council in increasing balances by £2.98 million, in ending the year £1 million under budget and in delivering £11.3 million in efficiency savings.

Whilst the deficit for the year was £68 million, this is largely attributable to an impairment due to market forces, which will be countered in future years with corresponding credits as house prices increase. This impairment is an accounting requirement which has no impact on council tax payers. (Note: - the SORP requires practitioners to undertake an impairment review of its assets

where a known event has occurred that may impair the value of these. Officers concluded that the policy of using Land Registry indexes for house price gains or falls for years in between the five yearly full valuation should not be stopped in 2008/09. Hence, the fall in market value of council dwellings is reflected in full and charged to the Income and Expenditure account.)

Accounting policies and financial reporting

As part of the audit, the qualitative aspects of the financial reporting process are also reviewed. Several presentational amendments were suggested and agreed to the council's accounting policies. In relation to financial reporting, there are no outstanding issues.

Materiality and identified misstatements

It has been agreed to amend the statements as indicated by external audit in the report and Appendix 1.

All the amendments leading to adjustments to the statements relate to errors between Debtor and Creditor accounts. Three of these adjustments relate to School accounts, namely School payroll, Teachers Superannuation and Surestart, where both creditors and debtors were both over or under stated. The fourth was the Housing Benefit account, in which, again, both debtors and creditors were understated.

There are a number of unadjusted errors, generally around classification that have not been amended in the 2008/09 statements on the grounds that a full balance sheet review is currently underway that will rigorously inspect all creditor and debtor balances or/and that the adjustments are non-material in nature. External audit have agreed with officers that this is acceptable to them. These have been further classified between errors of fact and differences in judgement.

The report sets out these from page 16 and Appendix 1 and these are explained further below.

Errors of fact

- Recognition of unconditional government grants – a balance of £898k shown on Creditors is in effect remaining balances on revenue grants (Preventative Technology) from previous years that are due to be spent in 2009/10. These monies should have been credited to earmarked reserves.
- Icelandic Accounts - the statements were prepared according to the latest information available on 30 June and in accordance to LAAP Bulletin 82. Since then, updated information has been received from the Banks' Administrators which results in a £35k increase to the impairment.

- Government Grants Deferred Account - in accordance with LB Hillingdon accounting policies if there are grants that are applied to third party assets, then the grant is credited to I&E to offset the capital expenditure that is also debited to I&E in the year of expenditure. A Private Sector Renewals Grant for £1,490k was omitted. As this is then reversed it has no overall effect and will be written back in 2009/10.
- Asylum Grant timing – this has arisen from the difference in timing between the preparation of the accounts and the grant claim. Due to the immateriality of this amount it will be written back in 2010/11.

Differences in Judgement

- Imported Goods creditor - the balance of £1,584k shown on Creditors for Imported Food Unit is a surplus built up over a number of years. Further analysis of this account has been undertaken in 2009/10 and this balance will be credited back to revenue or earmarked reserves.
- Council Tax bad debt provision – based on their experience with other local authorities, Deloitte think that the provision for council tax bad debt, less than 5 years old referred to Bailiffs, should be based on 95% non recovery. Hillingdon currently only provide this at 15%. We would argue that performance on the collection of arrears in Hillingdon is higher than many other authorities and so 95% would be too high a provision. However, we do agree that our methodology for calculation of the bad debt provision does need to be reviewed and this will be undertaken over the next few months.
- Non-domestic rates bad debt provision – Deloitte recommend an increase to the NNDR bad debt provision, mainly due to the current economic recession. Experience in Hillingdon is showing the recession to have little impact on NNDR collection rates in 2008/9 and in 2009/10 for the year to date. Hillingdon had the 2nd highest in-year collection rate for NNDR in London last year. However, we have agreed to keep this under review and adjust in 2009/10 if necessary if we start to see an impact on collection rates.

Accounting and internal control systems

A number of recommendations have been made in respect of the accounting and internal control environment. All of these recommendations have been agreed by management and actions developed to implement the recommendations. Only 3 of the recommendations have been identified as high priority and it has been agreed that these will be fully implemented by 30 September 2009.

Audit status

At the time of writing this report, several areas of audit are yet to be fully completed. An oral update on these areas will be given at the Audit Committee meeting on 22 September 2009.

Annual Governance Statement

The Annual Governance Statement has been updated since 30 June to reflect further internal audit work undertaken in 2009 concerning procurement procedures within the Hillingdon Grid for Learning.

Value for Money Conclusion

Full details on the council's Use of Resources assessment are contained in a separate report being considered by this committee. This assessment has led to the expectation of the issue of an unqualified conclusion on Value for Money.

Progress made since 2007/08 and Actions taken

After two years of interim staffing arrangements the Corporate Accountancy team is now stable and fully staffed with officers who have experience within both Financial Planning and Reporting. This has enabled the team to widen its remit from the statement of accounts preparation to include greater emphasis with regard to financial controls and budget monitoring.

The statements were prepared earlier than previous years which afforded officers a longer period for checking and review. The quality of working papers has continued to improve and the arrangements agreed with Deloitte regarding the preparation of working papers and the response to audit queries has generally worked well. The rigorous protocol arrangements for audit queries involving a corporately controlled mailbox was substantially relaxed and this has allowed greater flexibility and efficiency whilst simultaneously ensuring timely officer responses coupled with the avoidance of additional audit fees.

The area of greatest concern arising from the audit was around the categorisation and accounting treatment of some debtors and creditors. The Corporate Accountancy team has undertaken a substantial review of this element of the Balance Sheet and is in the process of reviewing many historic, often minor, balances and strengthening procedures, to ensure that all revenue grants are taken straight to the Income and Expenditure account and that remaining monies are properly categorised at year end as earmarked or general reserves, if there is no obligation to repay such monies. Refreshed guidance has been

issued and further training is planned to ensure all finance staff have a full understanding of the account coding hierarchy, the importance of balance sheet management and the need for proper reconciliations at account code level as well as cost centre.

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None