

Planning Report to the Audit Committee for year-ending 31 March 2014



27 February 2014

the
Distinctive
audit

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I am delighted to present this planning report for the 2013/14 audit of the London Borough of Hillingdon. This report sets out our audit approach and the more significant areas where we will focus our attention this year.

Heather Bygrave, Audit Partner



The big picture

The big picture

We have set out below an overview of the key developments at the Council and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

Relevant developments

- At month nine the Council is forecasting a General Fund outturn net expenditure of £205.7m, which is £5.9m ahead of budget.
- The Council has a £17.1m savings plan, of which £13.8m (81%) is identified as 'banked' or on track for delivery.
- At month nine, General Fund capital expenditure was £53.0m, or 63% of the £84.0m forecast outturn. This represents a forecast underspend of £23.4m to the revised budget of £107.4m. The schools expansion programme represents the single biggest contributor to this underspend, which is largely due to contract awards being lower than originally budgeted for.
- There is an upgrade scheduled for Oracle financials. Whilst this is not expected to impact directly on our work in 2013/14, preparations are likely to be a draw on officers' time during the current year accounts and audit process. We will consider whether this may represent a risk for the 2014/15 year.
- The finance department has seen a new appointment in a key role in the preparation of the financial statements. We will work with Sian Kunert (Chief Accountant) and the rest of the finance team to ensure clear plans are in place for the audit.
- The Audit Commission has determined a reduction in the grants to be audited in the current year. A certification is no longer required for the NNDR grant.

General Fund net expenditure

£205.7m forecast

£211.6m Revised budget

General Fund reserves (£m)

£36.2m 2013/14 forecast

£30.3m 2012/13 actual

£15.0m minimum set

HRA net expenditure

£51.2m forecast

£57.3m Revised budget

General Fund Capital expenditure

£84.0m forecast

£107.4m Revised budget

Key developments in financial reporting requirements

- Changes to the Code requirements include the classification, recognition, measurement and disclosure of post-employment benefits.
- New guidance on the accounting entries required from the localisation of business rates.
- Clarification regarding the frequency of revaluations for properties. This amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.
- Other smaller changes to presentation and disclosure matters in the financial statements.

Significant audit risks

- Recognition of grant income
- Calculation of the bad debt provision against sundry debts
- Recording of capital spend
- Management override of key controls, as presumed by auditing standards.

A reminder of our conclusions in 2012/13

Our audit opinion, significant estimates and audit adjustments

In September 2013, we issued the Council with an unmodified audit opinion on the financial statements. As a reminder, we have set out below our prior year consideration of your significant accounting estimates.

Description of the risk	←	Acceptable Range					→	PY Findings
Pension Liability	Less prudent	✓					More Prudent	A
Asset Revaluation		✓						G
Sundry Debt Provisioning		✓						G
Management override of controls		✓						G

● G No unresolved issues
 ● A Immaterial unadjusted items remaining
 ● R Material unresolved matter

Prior year adjustments and recommendations

There was one uncorrected misstatement of £0.4m in the financial year to 31 March 2013 in relation to the carrying value of the pensions investment valuations. We would also like to remind you of the following unadjusted disclosure misstatement identified in the prior year with a view to addressing this at an early stage of the current year reporting process:

- External Audit Costs: In the note to the accounts, fees payable for the certification of grant claims and returns showed the fees for external audit on a cash basis. We noted that this should be disclosed on an accruals basis. The effect for the prior year was immaterial at £115k.

We also made control recommendations to Management in respect of:

- The checking of the accuracy of data sent to the actuary.
- Refresher training for all staff and for new joiners involved with journal posting to encourage journals to be posted correctly in the first instance and reduce the risks of miscoding.
- Increasing the level of documentation around asset valuations, and formalising the valuation process and engagement of specialist support where appropriate.
- Designing a capital monitoring system which is risk-focussed and highlights where projects are not progressing .
- Review of the CIPFA publication "Audit Committees: Practical guidance for local authorities", with specific consideration of the guidance around right of access to individuals and effectiveness of the Audit Committee.
- Improving the monitoring of the National Fraud Initiative.
- Implementation of an e-mail archive and back-up solution to minimise risk of data loss.

Our audit quality promise

Our audit quality promise

Our new quality standard



The quality of our audit delivery is of great importance to us. In order to ensure we deliver an excellent service to you, we have developed our audit quality promise. Key aspects of this delivery are:

- how we communicate with you throughout the year;
- what insight we bring around the quality of your control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit at every level.

This section sets out our commitments to management, officers and members in these areas and we will actively seek feedback on how we have performed against them.

From discussions with you and the client satisfaction survey you recently completed, we know that you value an integrated audit approach which encompasses the main financial statements audit, the pensions audit and the grant certification. Our Audit Quality promise takes this into account. The changes we have made for this year include a combined management structure to provide an integrated approach, and the proposed introduction of more regular meetings to keep you up to date with our progress.

Our commitment to you

Communication



We believe that regular face to face communication is essential to delivering quality and insight through our audit. We have set out below our planned communications schedule for both the audit period and throughout the year.

Year round communication

We will hold bi-monthly meetings with Paul Whaymand and Nancy Le Roux and annual meetings with Fran Beasley and Cllr Ray Puddifoot. We will discuss with the newly appointed Audit Committee Chair the form of communication that they would like throughout the year.

In these meetings we will discuss the latest Council developments, and in-year performance. We will also provide any updates on our findings to date, and any relevant regulatory / technical updates.

These meetings will also include updates over pensions and grants where appropriate.

During the main audit period

During the audit period we will hold weekly progress updates with Sian Kunert and James Lake and fortnightly progress update meetings with Nancy Le Roux to discuss findings and any emerging issues on the financial statement and pensions audits.

We will hold a close meeting ahead of drafting our Audit Committee papers.

We will agree with the new Audit Committee Chairman the form of communication that they would like during the year and in the audit period.

During the period of the grants work we will hold fortnightly update calls with Nancy Le Roux and Muir Laurie to discuss any findings and update on progress.

Open feedback process

We will carry out debrief meetings with the Audit Committee Chair, and Paul Whaymand and Nancy Le Roux to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

We will respond to this feedback with agreed actions and timescales.

We will also seek direct feedback through regular meetings during the year.

Responding to queries and requests

We will always endeavour to respond to queries and requests within 24 hours and to give definitive timescales for delivery or their resolution.

We will proactively set up meetings to discuss any technical accounting or regulatory developments, which could have a significant impact on the Council as soon as we become aware.

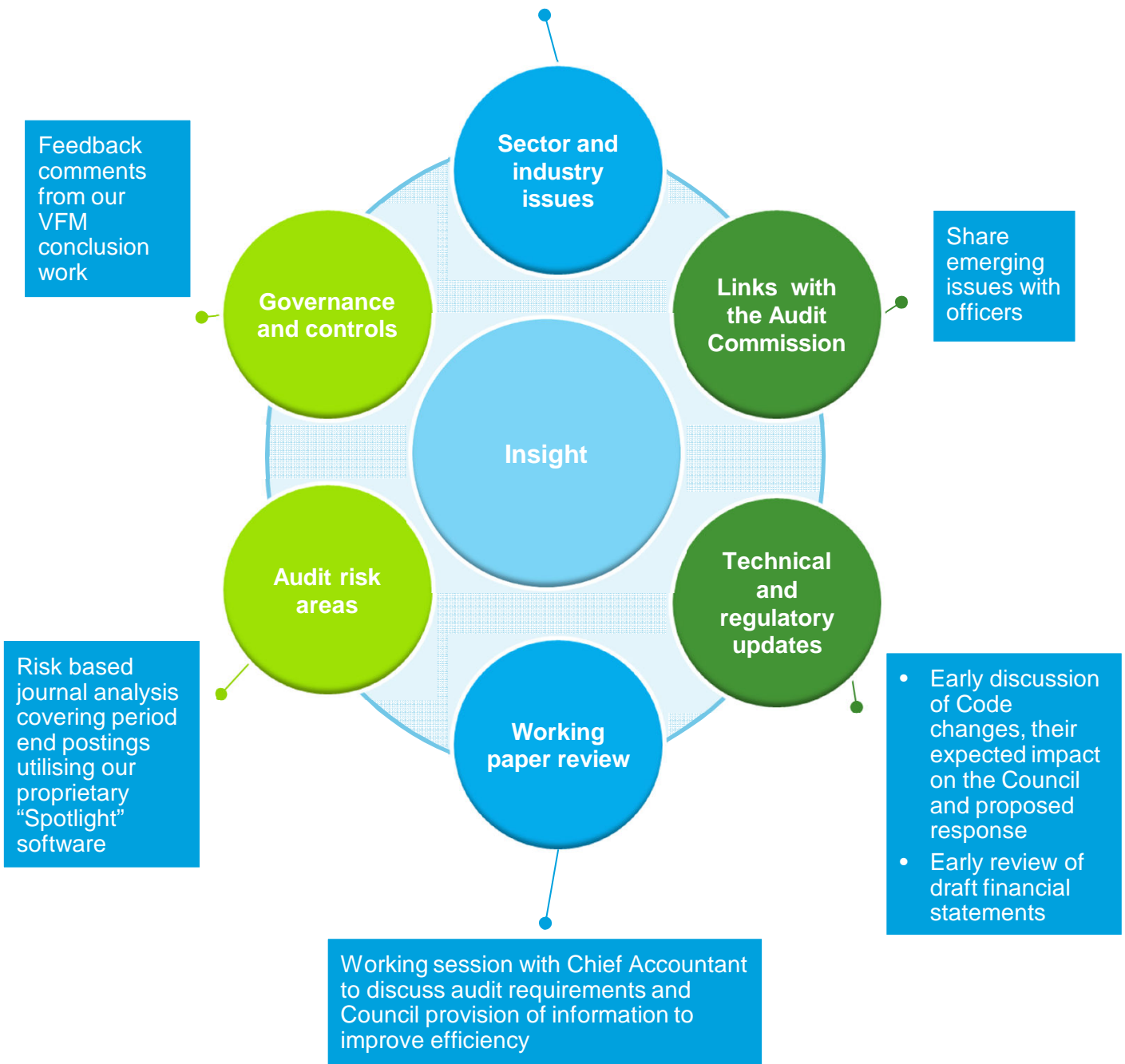
Bringing you insight

We have summarised below some of the ways we will provide the Council with insight during 2014



Sharing knowledge of sector developments, for example:

- We have attached at Appendix 5 a summary of our research into the state of local public services
- We have discussed the potential impact of the Better Care Fund with officers of the Council



Changes in your Statement of Accounts



Changes in your Statement of Accounts

New reporting requirements

We welcome this opportunity to set out for the Audit Committee a summary of the latest developments in financial reporting which will impact this year end.

Change in Code of Practice on Local Authority Accounting requirements	Impact on Hillingdon Council
<ul style="list-style-type: none"> Post-employment benefits: changes have been made to Code requirements in respect of the classification, recognition, measurement and disclosure requirements introduced as a result of amendments to the relevant accounting standard. 	<ul style="list-style-type: none"> This is relevant to the Council and will require a number of changes to the calculation and presentation of entries.
<ul style="list-style-type: none"> Accounting for business rates retention: the Code provides guidance on the accounting requirements arising from the localisation of business rates in England from 1 April 2013. 	<ul style="list-style-type: none"> This is relevant to the Council and will require a change in the form of accounting for the 2013/14 Statement of Accounts.
<ul style="list-style-type: none"> Dedicated Schools Grant (DSG) – there is a change in the disclosures for DSG. 	<ul style="list-style-type: none"> Changes will be needed to the format of the note to bring into line with the latest guidance.
<ul style="list-style-type: none"> Presentation of Financial Statements: the Code makes amendments to the format of the Comprehensive Income and Expenditure Statement. This is in respect of items that are potentially re-classifiable to Surplus or Deficit on the Provision of Services at a future time. Where authorities have these types of transactions, the items listed in Other Comprehensive Income and Expenditure must be grouped into those items that: <ol style="list-style-type: none"> will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met. 	<ul style="list-style-type: none"> Where local authorities do not have such transactions, no change is needed to the format of the Comprehensive Income and Expenditure Statement. However CIPFA recommends in such circumstances that authorities clarify in their summary of significant accounting policies that, where this is the case, they do not have such transactions and have therefore not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be re-classifiable and amounts that are not.



Changes in your Statement of Accounts (continued)

New reporting requirements

Change in Code of Practice on Local Authority Accounting requirements	Impact on Hillingdon Council
<ul style="list-style-type: none"> Revaluation of properties - Clarification regarding the frequency of revaluations for Property, Plant and Equipment which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date. 	<ul style="list-style-type: none"> This is relevant to the Council, and management should consider the current frequency with which they revalue their assets.
<ul style="list-style-type: none"> The Carbon Reduction Commitment (CRC) Energy Efficiency scheme – The Code has been updated for changes in the scheme applicable to 2013/14. In particular, as 2013/14 is the end of the introductory phase, there is no option to carry forward allowances for use in respect of emissions in 2014/15 with any remaining unused allowances at the end of the introductory phase become invalid. Guidance on any allowances purchased prospectively for 2014/15 is pending. 	<ul style="list-style-type: none"> This is applicable to the Council and management should consider whether this has a material impact.
<ul style="list-style-type: none"> Service Concession Arrangements (PFI and PPP Arrangements) – updates to ensure that provisions adequately reflect the grantor arrangements, particularly in relation to assets under construction and intangible assets. 	<ul style="list-style-type: none"> This is not relevant to the Council.

Scope of work and approach

This section sets out our planned scoping for the audit of the Council's financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

We have six key areas of responsibility under the Audit Commission's Code of Audit Practice

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

We will also review reports from regulatory bodies and any related action plans developed by the Council.

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience; and
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

Assurance report on the Whole of Government Accounts return

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on The Council's whole of government accounts return. Our report is issued to the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

Pensions Audit

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds.

Based on guidance issued by the Audit commission, Auditors are asked to treat the Local Government Pension Scheme (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority.

The appointed auditor carries out work on individual claims and returns as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

Scope of work and approach (continued)

Independence

We confirm we are independent of the Council. We will reconfirm our independence and objectivity to the Audit Committee or the year ending 31 March 2014 in our final report to the Audit Committee. Appendix 1 sets out proposed fees for the year.

Approach to controls testing

As set out in "Briefing on audit matters" circulated to you on 28 February 2012, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

We will consider the results of our procedures in respect of the Council's controls and the extent of any impact our findings have on our substantive audit procedures.

Obtain and refresh our understanding of the Council and its environment including the identification of relevant controls

Identify risks and any controls that address those risks

Carry out 'design and implementation' work on relevant controls

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks

Using the work of internal audit

Scoping of material account balances, classes of transactions and disclosures

We perform an assessment of risk which includes considering the size, composition and qualitative factors related to account balances, classes of transactions and disclosure. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

Liaison with internal audit

We continue to rely on the work of the Internal Audit function to inform our risk assessment. The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 "Using the work of internal auditors". This prohibits use of internal audit to provide direct assistance to the audit. Our current approach to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and will not change the existing scope of Internal or External Audit's work. However, this will prevent us from further increasing the extent of our use of Internal Audit's work in future.

We have recently met with Muir Laurie to discuss internal audit work to date in the 2013/14 year and plans for the year ahead. We will arrange further meetings and review relevant internal audit reports prior to, and during, the main audit period.

Whole of Government Accounts

Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on The Council's whole of government accounts return. We will review the return to check consistency with the audited statutory accounts.



Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

For the Council's 2013/14 financial statements, we have estimated materiality of **£10.3m** based on forecast income for the year. We will report to the Audit Committee on all unadjusted misstatements greater than **£515k** and other adjustments that are qualitatively material.

1. Recognition of grant income

We see this as an audit risk in view of the need for management judgement on recognition of grant income (capital and revenue), including determining whether the grant has conditions.

We have identified recognition of Grant Income as a significant risk due to:

- Grant income being recognised only once any conditions attached over grants have been met.
- Significant management judgement over determining if there are any conditions attached to a grant, and if conditions have been met.
- Complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

In the prior year grant income amounted to £416.6m, with plan for 2013/14 and capital grant and contributions income amounting to £22.6m.

There are three types of grant income which we have considered to be relevant to this risk: specific and non-specific revenue grants and capital grants. Below is a chart of the proportion of grant income split by type of grant.

Grant Income (£m)

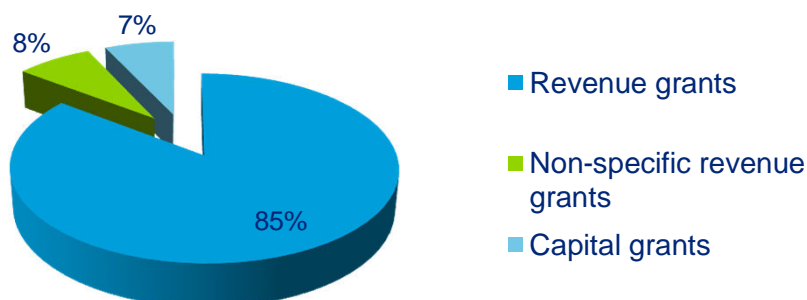
2012/13

£416.6m

Our approach

- We will carry out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.
- We will review correspondence attached to specific grants and compare to the Council's accounting treatment.
- We will test the design and implementation of controls around recognition of grant income.

Proportion of grant income split by type of grant



2. Calculation of bad debt provision against sundry debtors

The calculation of the bad debt provision against sundry debts is a significant audit risk in view of different judgements and assumptions used in calculating the provision for the various sub-categories of debt.

	Sundry Debt (£m)	Provision (£m)
2012/13	£21.4m	£11.1m

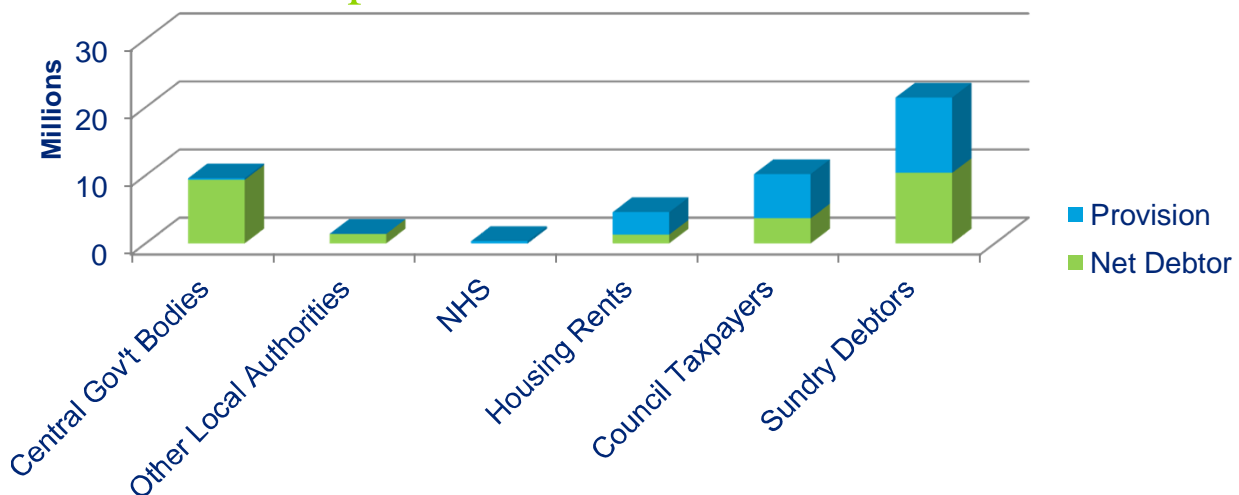
We have identified the calculation of the bad debt provision against sundry debts as a significant risk due to:

- Different methodologies for calculating the level of provision required against the different sub-categories of debt. The total sundry debt balance was £21.4m gross of provisions at 31 March 2013.
- Significant management judgement around the level of provision which should be based on sound assumptions and methodology. The provision against sundry debts totalled £11.1m at 31 March 2013.

Our approach

- We will challenge management’s methodologies and assumptions used to calculate the sundry debt provision and the evidence to support the approach.
- We will consider whether provisions appropriately reflect the impact of the changing economic conditions and welfare reforms by reference to recent collection performance and trends.
- Two types of debt (housing and social services) attract significant provisions, as the Council considers these debts to have a higher risk of recovery. We will therefore test the reasonableness of these two types of debt provision held in the prior and current year.

Gross debtor as at 31 March 2013 split by the amount provided and the net remainder



3. Recording of capital spend

The Council is forecasting a significant amount of capital spend in 2013/14. Judgements are required in the classification of expenditure

	Actual (£m)	Forecast (£m)	Plan (£m)
2013/14	£53.0m	£84.0m	£107.4m
2012/13	£49.0m		

Actual*/Plan

Actual

* Balance as at 31 December 2013

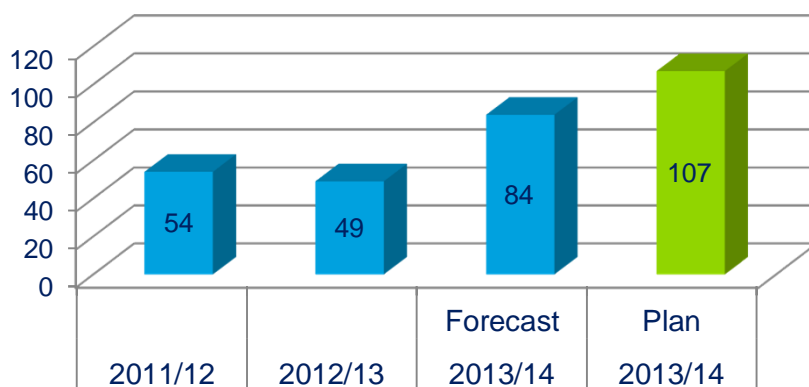
We have identified the recording of capital spend as a significant risk due to:

- A forecast of significant capital spend in 2013/14 by the Council compared with previous years.
- There being a significant management judgement over classification of expenditure on whether it is capital or revenue in nature.

Our approach

- We will perform detailed testing on the expenditure coded as capital additions in the year to confirm whether the expenditure has been coded correctly.
- Where the addition replaces another asset, we will test that the other asset has been appropriately disposed of.
- We will also perform detailed testing on repairs and maintenance accounts to identify any capital expenditure that has been incorrectly treated as revenue.

Detail of capital spend from 2011/12 to 2013/14



4. Management override of controls

In accordance with International Standards on Auditing (ISA 240), we presume that there is a risk of fraud as a result of Management override of controls.

Our approach

- We will consider those significant accounting estimates, which may be subject to Management bias, as set out in the other risks described in this section.
- We will also perform focussed work on the testing of journals, using data analytics to focus our testing on higher risk journals; significant accounting estimates, and any unusual transactions, including those with related parties.
- We will use enhanced data analytics to provide support through our new integrated system, Spotlight.

Spotlight

Spotlight is Deloitte's centralised analytics platform that provides access to pre-built analytics on a growing range of risks and account balances. It allows us to build and configure analytics in a risk-focused and user-friendly way.

Spotlight can be used for financial and analytical review (identifying trends), fraudulent financial reporting through identification of high risk journals, Fixed assets (assessment of additions and recalculating depreciation) accounts payable (assessment of year end payables balance).

We will use Spotlight to give us insight into your annual financials. We will also use Spotlight to identify high risk journals for our testing the specific identified risk of Management override of controls.

Spotlight will help us to deliver audits in faster, better way.

Value for money conclusion

Value for money conclusion

Our work will focus on the extent to which the Council has proper arrangements in place to secure value for money

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the London Borough of Hillingdon has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as “the VFM conclusion”.

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Preliminary assessment

Our preliminary assessment is that there are no significant risks in relation to our VFM responsibilities which requires local work to be carried out and we have therefore not identified any risks in our audit plan. This preliminary view is based on the undertaking of a risk assessment, which involves consideration of common risk factors for local authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the Hillingdon Council.

We have undertaken this preliminary work through review of relevant documentation, including cabinet and committee papers, and discussion with officers as necessary. We will update our detailed risk assessment from April to take account of the outturn financial and performance information for 2013/14, and through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Grants

Grants

Our work will focus on the audit over the grants in scope as per our contract with the Audit Commission

Scope

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims and returns as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

The respective responsibilities of the grant paying body, authorities, the Audit Commission and appointed auditors in relation to claims and returns are set out in the 'General Certification Instructions' produced by the Audit Commission.

Auditors appointed by the Audit Commission are required to:

- review the information contained in a claim or return and to express a conclusion whether the claim or return is: i) in accordance with the underlying records; or ii) is fairly stated and in accordance with the relevant terms and conditions;
- examine the claim or return and related accounts and records of the Local Authority in accordance with the specific grant certification instructions;
- direct our work to those matters that, in the appointed auditor's view, significantly affect the claim or return;
- plan and complete our work in a timely fashion so that deadlines are met; and
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in the grant certification instructions.

These responsibilities do not place on the appointed auditor a responsibility to either:

- identify every error in a claim or return;
- or maximise the authority's entitlement to income under it.

Non-certification of NNDR3 claim for 2013/14

From 2013/14 the NNDR3 grant claim is no longer subject to external certification. In previous years we have placed reliance on the certification of this claim which has reduced the quantum of testing required on non-domestic rates in the main audit. The absence of the NNDR3 audit will therefore have the effect of increasing the volume of work required around domestic rates to support our main audit opinion. We understand the Audit Commission are considering if a fee adjustment should be made for this.

Grants included in the Audit Commission contract for the year ended 31 March 2014	Deadline for submission
Pooling of Housing Capital Receipts (CFB06)	26th September 2014
Housing benefits subsidy claim (BEN01)	28th November 2014
Teachers pension return (PEN05)	28th November 2014

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. We enhance this reporting with observations arising from our audit work and our Insight Plan performed to date which are designed to help the Board discharge its governance duties. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit
- Key regulatory and corporate governance updates, relevant to you

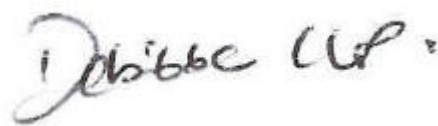
What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you on 28 February 2012.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

Chartered Accountants

St Albans

27 February 2014

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Independence and fees

We confirm we are independent of the London Borough of Hillingdon

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 confirmation	We confirm we are independent of the London Borough of Hillingdon and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2014 in our final report to the Audit Committee.
Fees	Details of the non-audit services fees proposed for the period have been presented separately on the following page.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 1: Independence and fees (continued)

We have set out below our audit fees for 2013/14

The table below details our proposed audit fees and non-audit fees for the year ending 31 March 2014 for those services for which we have been engaged or proposed for as at the date of this report.

	Current year £'000	Prior year £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the London Borough of Hillingdon's annual accounts, assurance report on the Whole of Government accounts and the value of money conclusion (note 1)	207.1	207.1
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	228.1	228.1
Fees payable for the certification of grant claims	57.6	90.2
Total fees payable in respect of our role as Appointed Auditor	285.7	318.3
Non audit fees		
Deloitte Real Estate contract monitoring engagement (note 2)	52.1*	157.1*

Note 1:

From 2013/14 the NNDR3 grant claim is no longer subject to external certification. In previous years we have placed reliance on the certification of this claim which has reduced the quantum of testing required on non-domestic rates in the main audit. The absence of the NNDR3 audit will therefore have the effect of increasing the volume of work required around domestic rates to support our main audit opinion. We understand the Audit Commission are considering if a fee adjustment should be made for this.

Note 2:

Deloitte Real Estate are monitoring the delivery of a building contract for the expansion of 6 primary schools. The fees detailed here are those to date. We have considered the potential independence risks, including any potential risk in respect of a 'self-review threat' or 'management threat'. We have concluded that this work does not compromise our independence as DRE is not exercising authority on behalf of the Council and not making any management decisions for the Council. Furthermore, the work is undertaken by a separate team to the audit team and we have not encountered the work of DRE in our capacity as external auditors when testing capital balances or through or value for money procedures. We have received approval from the Audit Commission to undertake this work.

Appendix 2: Fraud: responsibilities and representations

As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Characteristics

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

Responsibilities

Your responsibilities

- The primary responsibility for the prevention and detection of fraud rests with Management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities

- We are required to obtain representations from your Management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for the Council.

• Our responsibilities and those of the Council are explained in the Audit Commission’s publication, ‘The responsibilities of Auditors and of Audited Bodies – Local Government’ issued March 2010.

Appendix 2: Fraud: responsibilities and representations (continued)

We make enquiries of Management, internal audit and the Audit Committee regarding fraud.

We will make the following inquiries regarding fraud:

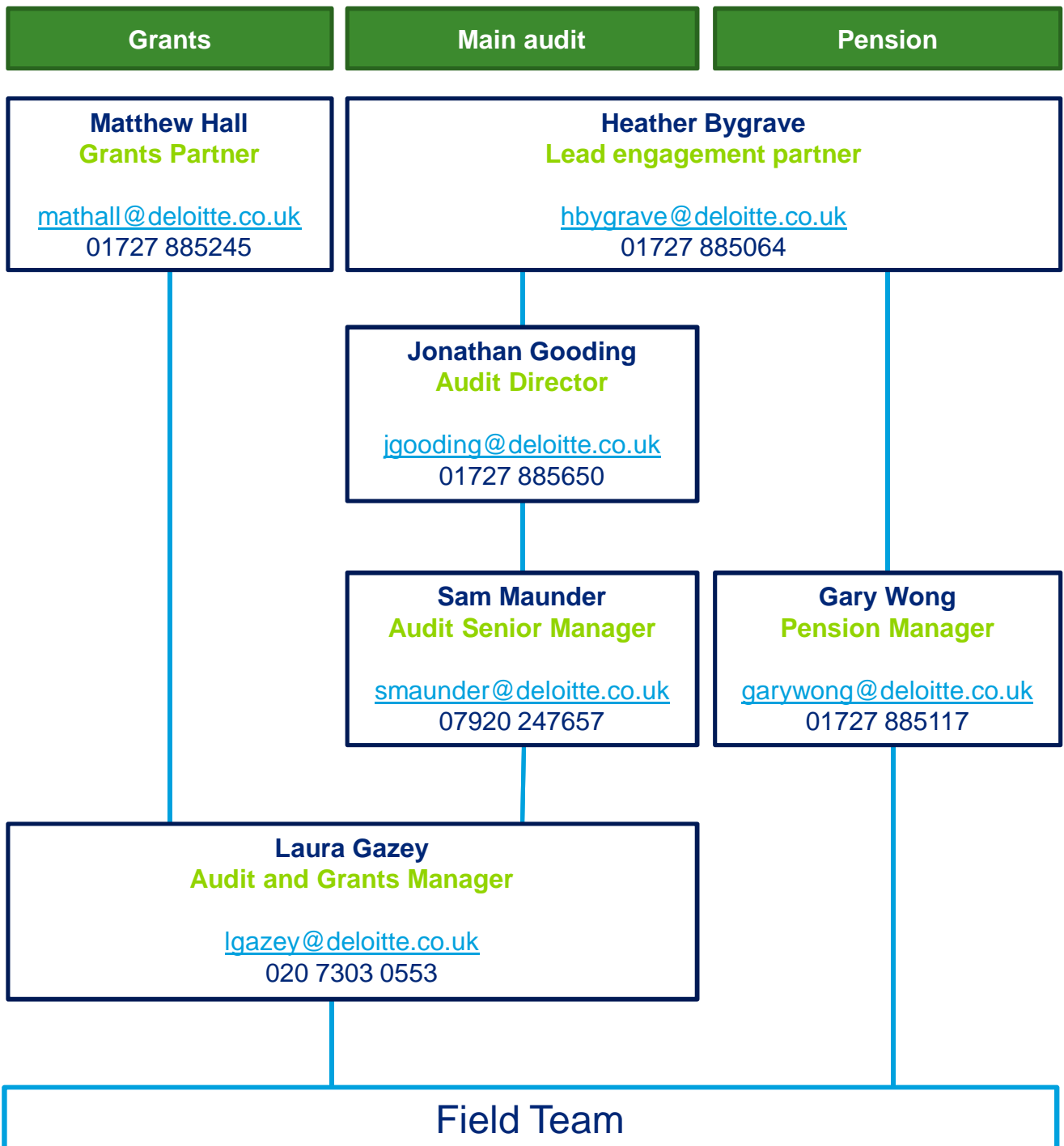
Management	Internal Audit	The audit committee
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments.</p> <p>Management's process for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.</p> <p>Whether Management has knowledge of any actual, suspected or alleged fraud affecting the entity.</p>	<p>Whether internal audit, headed by Muir Laurie, has knowledge of any actual, suspected or alleged fraud affecting the entity, to obtain their views about the risks of fraud, and to obtain status reports on fraud cases during 2013/14.</p>	<p>How the audit committee exercises oversight of Management's processes for identifying and responding to the risks of fraud in the entity and the internal control that Management has established to mitigate these risks.</p> <p>Whether the audit committee has knowledge of any actual, suspected or alleged fraud affecting the entity.</p>

We will request the following to be stated in the representation letter signed on behalf of the board:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and] that affects the entity or group and involves:
 - (i) Management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

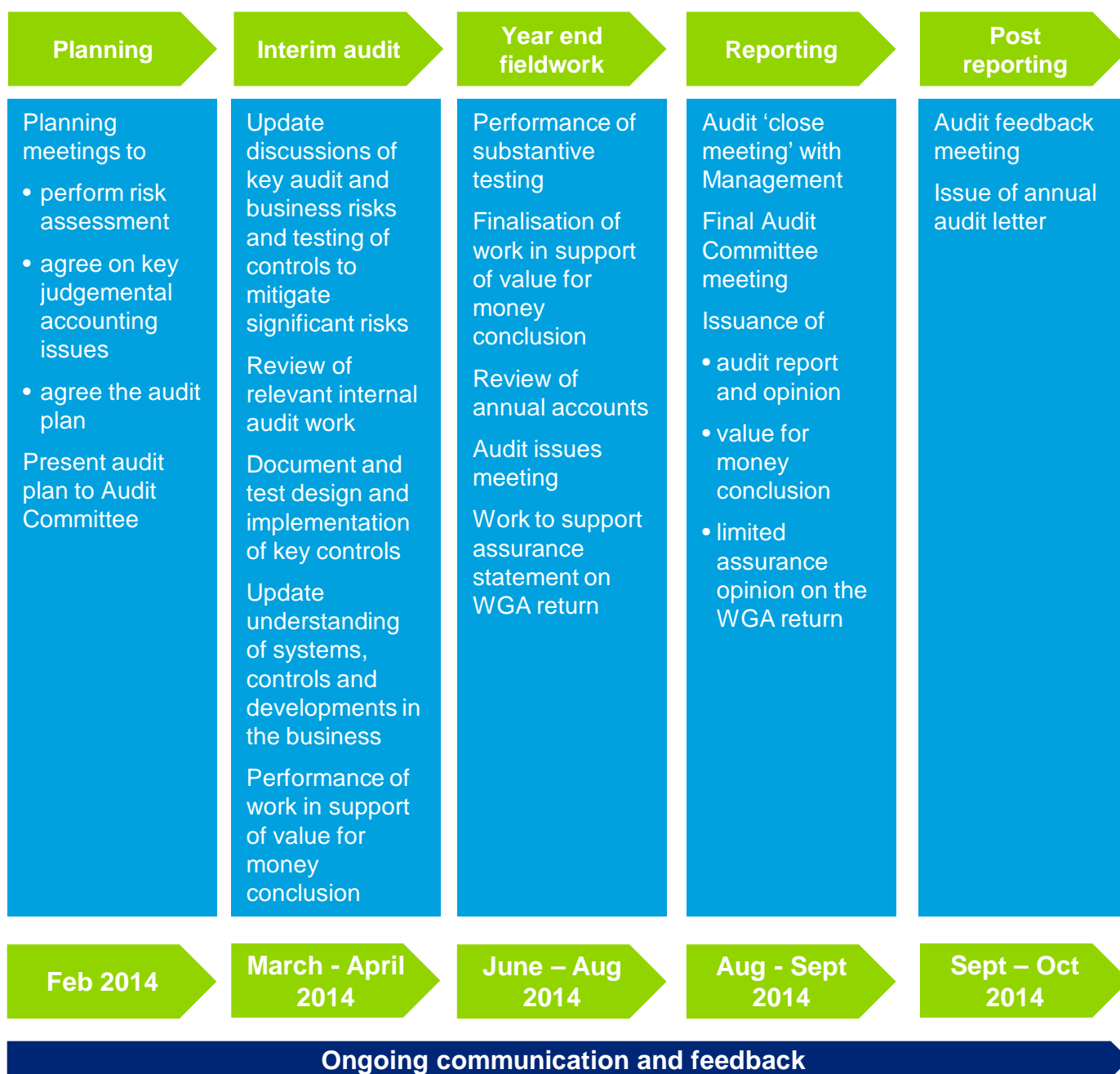
Appendix 3: Your audit team

A senior team, with continuity from last year, that incorporates specialists to perform audit work over pensions and grants and also provide insight and add value to the Borough in those areas



Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with Management and those charged with governance.





Appendix 5: State of local public services

We summarise the outcome of our research which provides further context for our audit

During the spring and summer of 2013, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change.

We have summarised the key messages in relation to local public services below.

Overall

Overall chief executives told us that they feel their organisations are coping well and responding effectively to the challenging circumstances.

They also said that while the depth and speed of change has been difficult for staff, morale is holding up, although future cuts create understandable concerns.

Link between local economies and local services has moved up the agenda

Combined with cuts, the recession has put the health of local economies high on the agenda. Weak economic growth and unemployment has increased pressure on the local public sector as demand for spending has increased. This concern was a clear theme, particularly at a time when cuts are reducing capacity to provide. One police respondent reported that while crime was down overall, shoplifting for food has increased.

Local public service executives fear the impact of welfare reforms

Our research suggests that public service leaders are particularly concerned about the fallout from welfare reform. Some wondered if central government has assessed whether savings on welfare spending will be counterbalanced by increased demand on local services. This was particularly a concern for directors in children's services where interviewees described rises in child protection cases. Many expressed concerns that cuts will affect their ability to invest in preventative services.

The people in our local public services are focused on opportunities – not just challenges

Our research showed that local public service executives see the current climate as an opportunity to refocus their services on residents' needs and outcomes, as well as to use creativity rather than resources to solve problems. One police respondent told us that in the past, additional finance would have been used to deliver change – but now, the force explores service redesign. On balance, interviewees felt that the opportunities of the coming five years outweigh the challenges.



Appendix 5: State of local public services (continued)

The game has changed – so have leadership priorities

When interview responses were collated, a striking trend emerged: organisational leaders are focused on their people and how they can be empowered to rise to their organisation's challenges. Public value is a notably important issue; a number of executives mentioned values – such as caring, fair and trusted – as being central to the public service ethos. At a time of public sector headcount reductions, interviewees spoke of the importance of attracting staff with the right skills.

A new public services landscape has brought a new set of risks

A number of interviewees told us about the advantages of public sector partnerships in delivering joined-up services, transferring knowledge and generating savings. Most thought that partnerships with the private and third sectors were also beneficial. They thought that cross-sector working brought specific benefits, including exposure to new ideas and new delivery models, efficiency and quality from private sector and local knowledge and niche services from the third sector. But many also recognised that commissioning and partnerships outside the public sector brought new, critical risks that needed to be managed.

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