London Borough of Hillingdon

External audit report to the Audit Committee on the audit of the year ended 31 March 2014

10 September 2014

Contents

“I am delighted to present our final report on the findings from our audit for the year ending 31 March 2014”

Heather Bygrave, Audit Partner

A reminder of our audit plan:

- Materiality set at £10.1m
- Threshold for reporting misstatements set at £505k
- Significant risks over recognition of grant income; bad debt provision against sundry debt; recording of capital spend; and management override of controls.
- We have taken a mainly substantive audit approach in accordance with our audit plan.

The findings from our work on the pension scheme will be provided in a separate report, which will initially be presented to the Pensions Committee. The findings from our grant work, which is still ongoing, will be reported to the Audit Committee on completion of our procedures in January 2015.

The big picture

The big picture

Significant audit risk	Conclusion
Grant income recognition	Grant income is a significant audit risk due to the requirement for management to consider each type of grant individually to consider appropriate treatment, and the associated judgement in relation to this. Grant income was £475.6m for the year (2012/13 £413.8m). Our testing concluded that grant income recognition is appropriate.
Bad debt provision against sundry debt	This is an area of management judgement with the sundry debt balance comprising various types of debt, each with different methods for allocating a provision. The sundry debt balance was £25.2m with a provision of £13.4m. Our testing concluded that the provision is within a materially reasonable range, but at the slightly prudent end of that range.
Recording of capital spend	We identified this as a significant risk because of the volume of capital spend in the financial year (£79.4m compared with £41.9m in 2012/13) and the judgmental area of classifying revenue and capital expenditure. Our testing did not identify any significant issues, and a proposed re-classification of an asset under construction to a surplus asset was accepted by management.
Management override of controls	We have not identified any material weaknesses in controls or any evidence of management override.

Other areas of responsibility

Value for Money (VFM)	In our audit plan issued on 27 February 2014, we communicated our preliminary assessment that we had not identified any significant risks in relation to our VFM responsibilities. We have since performed additional procedures to take into consideration any developments since our planning work was undertaken. This work did not identify any significant risks and so we anticipate issuing an unqualified VFM conclusion.
Annual Governance Statement	We are required to consider the completeness of the disclosures in the Annual Governance Statement and consider any inconsistencies between the disclosures and the information we are aware of from our work on the financial statements. We reviewed the draft Annual Governance Statement presented for audit, and have held discussions with management regarding changes to be made. These changes have been reflected in the revised Annual Governance Statement and so we have no issues to report in this area.
Pensions audit and grant certification	The pensions audit work is complete and is summarised in a separate report presented to you. Grants certification procedures are ongoing and findings will be reported to you in January 2015 on completion of this work.

Audit progress and areas to complete

- Our audit is largely completed. The following are the remaining areas we are required to complete to finalise the audit:
  - Receipt of remaining investment confirmations.
  - Completion of procedures for WGA.
  - Completion of internal quality assurance procedures.
  - Updating our review of events since 31 March 2014.
  - Receipt of signed management representation letter.

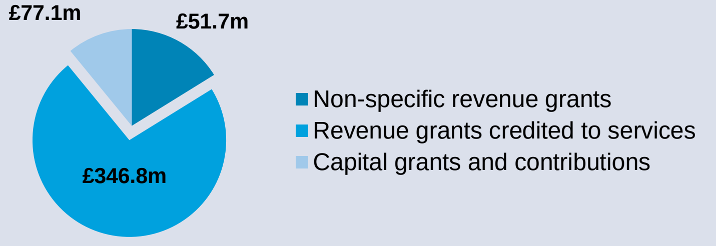
Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and disclosure matters within the financial statements.

1. Grant income recognition

We consider revenue and capital grant recognition to be reasonable

	Income (£m)
2013/14	**£475.6m**
Actual	
2012/13	**£413.8m**
Actual	



Nature of risk

We identified recognition of grant income as a significant risk due to:

- complex accounting for grant income, as the basis for revenue recognition in the financial statements will depend on guidance associated with each individual grant; and
- significant management judgement over determining if there are any conditions attached to a grant, and whether conditions have been met.

Total grant income recognised in the 2013/14 year is significant at £475.6m (2012/13 £413.8m).

Key judgement areas, its impact on the financial statements and our audit challenge

To address this risk we tested the design and implementation of key controls regarding the way in which the Council manages and recognises grant income. We did not identify any issues from this work.

We also performed detailed testing on a sample of revenue and capital grants received in the year. This involved reviewing correspondence associated with each grant selected, and then undertaking testing to assess whether the Council had recognised income in accordance with the CIPFA Code. Where the grant was conditional on the Council spending the grant in a specific way, we tested a sample of expenditure to verify this.

No significant issues were identified from our detailed testing, although we did propose a re-classification of a grant within the specific grant category. This amounted to £664k, which management has corrected this in the latest draft of the financial statements.

Deloitte view

Our testing did not identify any significant issues. A proposed re-classification has been accepted and amended by management.

2. Bad debt provision against sundry debt

We consider the provision against sundry debt to be materially reasonable

	Gross debt (£m)	Provision (£m)	Net debt (£m)
2013/14 Actual	**£25.2m**	**(£13.4m)**	**£11.8m**
2012/13 Actual	**£21.4m**	**(£11.0m)**	**£10.4m**

	Gross balance £m	Provisions allocated £m	Net balance £m	Provision % against gross debt %
	[1]	[2]	[1] – [2]	[2] / [1]
Housing benefit	10.2	(8.2)	2.0	80%
Social Care	3.9	(2.1)	1.8	54%
Housing rent	3.6	(2.7)	0.9	75%
Other	3.2	(0.4)	2.8	13%
Prepayments	4.3	-	4.3	0%
Total	**25.2**	**(13.4)**	11.8	50%

Nature of risk

We considered the bad debt provision against sundry debt (referred to as 'other entities and individuals' in the draft financial statements to be a significant risk because:

- provisions are by nature based on management judgement; and
- there are several sub-categories of debtor within this larger grouping, all of which have different methodologies for calculating the required provision.

Both gross and net debt has increased in 2013/14, although the percentage of provision applied to gross debt has remained very similar.

Key judgement areas, its impact on the financial statements and our audit challenge

We tested the design and implementation of the key controls relating to the calculation of the provision for these types of debt, and did not identify any issues. Management has calculated the provision for this type of debt in the same way as in 2012/13.

We performed further testing on these balances by completing the following procedures:

- Performing testing to validate the underlying information used by the Council to calculate the provision, and then recalculating the provision using the Council's methodology.
- Considered whether the level of provision was reasonable by reviewing historical accuracy of provision.
- Performing detailed sample testing of sundry debt balances to assess for recoverability of debt post year end.

2. Bad debt provision against sundry debt (continued)

Deloitte view

Of the gross debtor balance of £25.2m, a provision of £13.4m (53%) has been allocated. Based on our review of recovery of prior year debt, we consider the provision for sundry debt prepared on the same methodology as this year, to be within a materially reasonable range, but at the slightly prudent end of that range. We highlight that our testing in the 2012/13 financial year also concluded that we considered the Council provision for this account balance to be prudent, but materially reasonable based on historical cash recovery rates.

Our detailed testing identified a disclosure adjustment regarding the classification of a provision. We suggested to re-classify a provision in order to match against the gross debt. This amounted to £751k, which management accepted and has reflected in the draft financial statements.

3. Recording of capital spend

No significant issues were identified from our testing

	Capital expenditure (£m)
2013/14	£79.4m
Actual	
2012/13	£41.9m
Actual	

Nature of risk

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

- A forecast of significant capital spend for the 2013/14 year in comparison with previous years; and
- There being a management judgement on classification of expenditure as revenue or expenditure.

Capital spend was £79.4m in 2013/14, and 89% increase on the £41.9m spend in the 2012/13 financial year. One of the key drivers of this change is the culmination of the primary schools capital programme, which is due for completion in 2014.

Key judgement areas, its impact on the financial statements and our audit challenge

We tested the design and implementation of controls surrounding the capital expenditure process, including the process by which expenditure is classified as revenue or capital expenditure, and when assets under construction are identified as being completed.

We performed detailed testing on a sample of capital additions to identify if they had been classified correctly as capital assets. We also performed detailed testing on a sample of revenue expenditure classified under repairs and maintenance, in order to assess whether any of this spend should be classified as capital expenditure. No issues were identified from this testing.

We identified one minor error regarding the classification of an asset under construction amounting to £800k, which was subsequently found to be a surplus asset. We proposed an adjustment to re-classify this asset and recognise it as a surplus asset, which was accepted and adjusted by management. No other errors of this type were identified.

Deloitte view

One minor error was identified regarding the classification of an asset under construction, which was subsequently amended by management. No other issues were identified from testing.

4. Management override of controls

We have not identified any instances of management override of controls.

Nature of risk

International Standards on Auditing require us to presume a significant risk in relation to management override of key controls.

Our audit work is designed to test management override of controls and key estimates. We identified key judgements around the provision for sundry debt to be an area of significant risk and have discussed our approach and findings in this area on the previous pages. In this section, we will consider broader areas of management judgement including other bad debt provisions and other areas where judgements or assumptions are used.

Audit work completed to address this risk

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that the Council reported results that show an underspend against revenue budget. We have considered this and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements. Specific areas of work are:

Journals

We have reviewed the Council's total population of journal entries for the year to 31 March 2014 and selected a sample of journals with characteristics that may be indicative of a higher risk of fraud (for example, journals posted on a weekend, round number journals, duplicate journals etc.).

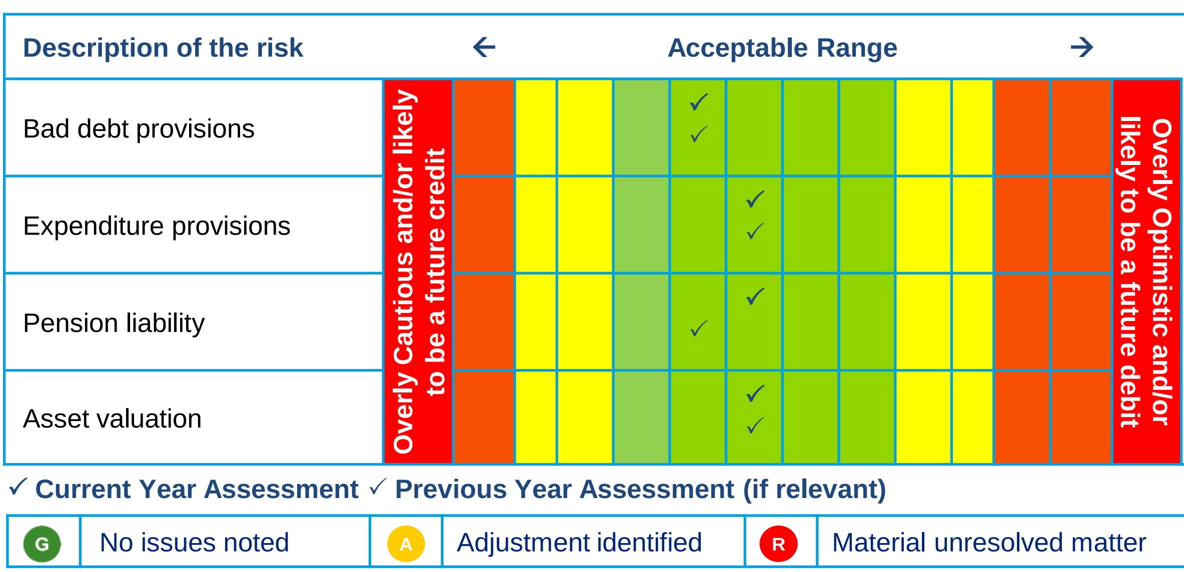
Our work focussed on the testing of journal entries made throughout the year and checking that entries had been properly authorised and reviewed, but also that they made clear business sense.

Our testing did not indicate any instances of management override of controls

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Accounting estimates

In addition to the key estimates discussed above, we have tested the basis for other estimates used in the financial statements and deem them to be within an acceptable range.



Deloitte view

No significant issues were identified from testing.

Value for money conclusion

2. Value for Money (VfM)

We anticipate issuing an unmodified audit report in respect of the VFM conclusion.

Background

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.

Audit work completed to address the significant risk

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

- the Council'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.

Procedures performed

In our audit plan issued to you on 27 February 2014, we reported that we had undertaken a preliminary assessment and had not identified any risks to our value for money conclusion that required further work to be performed. However, we also reported that we would need to consider any additional sources of information subsequent to the date of issuing our planning report.

Additional information considered includes the Head of Internal Audit annual report, cabinet and audit committee papers, and the draft annual governance statement, as well as the results of our own audit procedures and the year end outturn reported by the Council in the draft financial statements.

Specific areas of follow-up as part of the procedures noted above included the actions taken in response to the OFSTED report discussed within the Annual Governance Statement, progress made in the area of contract management following issues raised in the Head of Internal Audit report, and the extent of plans in place regarding the challenging future savings which the Council must realise in the medium term.

On completion of these procedures we concluded that there were no significant risks which required us to perform further work, and we propose to issue an unqualified value for money conclusion.

Insight and observations

Our observations on your financial statements and annual governance statement

We have reviewed the Council's annual governance statement and financial statement disclosures and suggested some changes to management

Annual Governance Statement

We have read the annual governance statement and considered against other sources of information we have reviewed as part of our audit procedures. We suggested an amendment relating to the Annual Governance Statement in relation to providing further detail in relation to the Internal Audit findings of the Anti-fraud and anti-corruption review. This proposed adjustment has been accepted by management and has been reflected in the latest version of the Annual Governance Statement.

Financial statements

We considered the draft financial statements presented for audit to be complete and of a good standard. As part of our procedures we have proposed a number of amendments to the presentation and disclosure of the draft financial statements. We consider the majority of these to be minor in nature, but have identified the more significant changes made in Appendix 1.

Internal control observations

We have identified risk management and control observations which we have discussed with management, the most significant of which are detailed below:

Description	Observation and Deloitte recommendation	Status
Fixed asset valuation	Whilst undertaking detailed testing on the Council's asset valuations, we identified a number of recommendations: • **Adoption of Modern Equivalent Asset basis:** The engagement letter in place between the valuer and the finance department states that where assets are valued under depreciated replacement cost (DRC), a modern equivalent asset basis (MEA) should be adopted. Specific discussions with the valuer identified that MEA had not generally been considered on the basis that comparable evidence was not available, and in one valuation abnormal costs had been included in the valuation, which would not be appropriate under an MEA approach. Given the assets in question are not significantly aged or collectively material, we do not consider this to represent a material issue for the valuations undertaken for the year ended 31 March 2014. However, we recommend that the MEA basis is applied for all DRC valuations undertaken in future, and where actual practice varies from engagement terms, this should be highlighted to the finance team. • **Documentation of valuation methodology:** we identified several assets within the same category which were valued using different methodologies. Whilst subsequent discussions with the valuer found this approach to be reasonable, we consider that documentation of the rationale for a particular methodology could be improved, particularly where this is a departure from usual practice.	A
	Management response **Adoption of Modern Equivalent Asset basis:** We acknowledge and agree that MEA should be applied for all DRC valuations and MEA excludes abnormal costs. However in this isolated situation, there were two valuations of modular public conveniences where the valuer referred to actual construction costs including certain site works. The valuer sought QS advice on the costs of providing new modular conveniences because the information available on BCIS did not cover such types of building . The QS advised that it would be appropriate to refer to the actual construction cost as a guide including the site works in these circumstances. **Documentation of valuation methodology:** We will amend documentation in future to ensure that these matters are clarified as necessary	
	Timeframe: September 2014 — **Owner:** Michael Paterson, Estates Manager	

Y Minor control recommendation　A Requires improvement　R Significant improvement required

Internal control observations

Update on prior year recommendations made

Description	Observation and Deloitte recommendation	Status
Property valuation technique	In 2012/13 we identified a number of recommendations regarding documentation of individual valuations and the formalisation of the wider valuation process between finance and the valuation team. Our current year testing has identified that formal engagement processes have been followed between finance and the valuation team, and our detailed testing of property valuations has noted improvements in valuation documentation. Therefore we consider these recommendations to have been implemented, although we note the separate recommendations made regarding valuations on the previous page. **Management update on recommendations not yet implemented** N/A - implemented	●

Description	Observation and Deloitte recommendation	Status
Accuracy check of data to actuary	In 2012/13 we identified some immaterial errors regarding the submission of Council data to its actuary. We recommended that controls were put in place to check that data to be sent to the actuary is accurate prior to being submitted. Our current year testing did not identify any issues in this area and management has confirmed that additional controls have been put in place. **Management update on recommendations not yet implemented** N/A - implemented	●

Description	Observation and Deloitte recommendation	Status
Journal codings	In 2012/13 we identified a significant number of manual journals labelled as ‘correction’ or ‘error’. We recommended that refresher training was put in place to encourage a ‘right first time’ approach. We note that management has implemented this recommendation by holding ‘back to basics’ training in the 2013/14 financial year. **Management update on recommendations not yet implemented** N/A - implemented	●

Key: Completed | Partially complete | Not yet completed

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 help the Audit Committee and the Accounting Officer and Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

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 previously.

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

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

10 September 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: Audit Adjustments

Uncorrected Misstatements

We only report to you uncorrected misstatements that are either qualitatively material or exceed the clearly trivial threshold of £505,000. Management has adjusted all misstatements identified in excess of this threshold.

Corrected Misstatements

We report all individual identified recorded audit adjustments in excess of £505,000 and other identified misstatements in aggregate adjusted by management in the table below.

		Debit/(credit) I&E £'000	Debit/(credit) in net assets £'000	Debit/(credit) in reserves £'000
Factual misstatements				
Re-classification of Asset under construction	[1]			
- Assets under construction		-	(800)	-
- Surplus assets		-	800	-
Re-classification of provision for bad-debt	[2]			
- Housing rents allowance for impairment		-	751	-
- Other entities and individuals allowance for impairment		-	(751)	-
Accelerated depreciation on schools	[3]			
Depreciation		2,751		
Fixed assets			(2,751)	
Movement in Reserves statement				(2,751)
Capital Adjustment Account				2,614
Revaluation reserve				137
Reclassification of investments	[4]			
Cash equivalents			(1,000)	
Investments (current)			1,000	

[1] Relates to the re-classification of one property (South Ruislip Library) which was originally recognised as an asset under construction but subsequently identified to be abandoned as a project. As a result we suggested it should be disclosed as a surplus asset.

[2] Relates to the re-classification of a provision to another category of debt in order to ensure that the provision relates to the gross debt for this category.

[3] Relates to accelerated depreciation of schools, which were demolished subsequent to the year end of 31 March 2014.

[4] Relates to the re-classification of two school deposits from cash equivalents to short-term investments.

Appendix 1: Audit Adjustments (continued)

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. Whilst we have proposed a number of disclosure amendments, we consider the vast majority to be minor in nature. Some of the more significant disclosure changes we have suggested include:

- **Cash flow statement:** changes to the prior year restated balances to correct casting and double-counting errors. This was subsequently corrected.
- **Accounting policies:** we suggested a clarification to the accounting policy for depreciation to state the policy of not depreciating in the year of acquisition and applying a full year of depreciation in the year of disposal. This was subsequently corrected.
- **Provisions:** we suggested a further analysis of provisions between current and non-current, and a more detailed narrative regarding uncertainties of settlement. This was subsequently corrected with the exception of the Insurance provision; officers have proposed a detailed review of the split of this provision in the 2014/15 year.
- **Financial instruments:** we suggested an amendment to the disclosures to reflect the requirements of the Code. This was subsequently corrected.

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 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 performed procedures to review and understand significant movements in all material balances compared to the prior year. We reviewed break downs of current year balances to assess whether they contained any unusual items and we considered, based on our prior year audit knowledge, whether there was a history of error in the accounts balance.

Appendix 2: Management representation letter

The draft management representation letter for the 2013/14 audit is set out below. Any further recommendations required based on the results of our outstanding audit procedures (refer Big Picture) will be communicated separately in advance of the Audit Committee meeting.

(Council Letterhead)

Deloitte LLP
3 Victoria Square
Victoria Street
St Albans
AL1 3TF

[Date]

Our Ref: HAB/SM/2014

Dear Sirs

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 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the London Borough of Hillingdon as of 31 March 2014 and of 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 and the Companies Act 2006. We are aware that under Section 501 of the Companies Act 2006, it is an offence to mislead a company auditor.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view, as set out in the terms of the audit engagement letter.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures".*

4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

5. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Council or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

Appendix 2: Management representation letter (continued)

6. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

7. The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures.

8. The disclosures related to accounting estimates under the entity's applicable financial reporting framework are complete and appropriate.

9. There have been no subsequent events that require adjustment to the accounting estimates and disclosures included in the financial statements.

10. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in Note [x] to the financial statements all guarantees that we have given to third parties.

11. We are not aware of any deficiencies in internal control.

12. We have reconsidered the remaining useful lives of the fixed assets and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.

13. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

14. 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 (including the discount rate used) accord with the directors' 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; and

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

Appendix 2: Management representation letter (continued)

Information provided

15. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter and required by sections 499 and 500 of the Companies Act 2006.

16. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

17. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

18. 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.

19. We are not aware of any fraud or suspected fraud 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.

22. 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.

23. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements

24. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

25. No claims in connection with litigation have been or are expected to be received.

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

27. All minutes of member and management meetings during and since the financial year have been made available to you.

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 3: Independence and fees

We confirm our independence

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 that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
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.
Relationships	There are no other relationships with the Council and its known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

Appendix 3: Independence and fees (continued)

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

The table below details our 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 2**)	211.5	207.1
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	232.5	**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	**290.1**	**318.3**
Non audit fees		
Deloitte Real Estate contract monitoring engagement (**Note 1**)	53.6	157.1

Note 1: Deloitte Real Estate has been monitoring the delivery of a building contract for the expansion of 6 primary schools. 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.

Note 27 to the draft financial statements discloses non-audit fees paid to Deloitte as £145k. This includes the £53.6k retained by Deloitte above for services performed, and £91.2k paid to sub-contractors.

Note 2: The fee of £211,500 includes a fee of £3,450 relating to additional procedures in respect of testing of Non-domestic rates following the removal of grant certification work covering this area in 2013/14.