

## London Borough of Hillingdon

Draft annual audit letter to the Members of the  
Council for the year ended 31 March 2014



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# The big picture

We are required to issue an annual audit letter to the London Borough of Hillingdon (the “Council”) following completion of our audit procedures for the year ended 31 March 2014. The letter is to be published on the Council’s website.

This is a draft of the proposed annual letter, which will be issued when our work has been completed. We have issued this draft so the Committee can review the proposed structure and the anticipated conclusions that we will make.

<b>The Council’s financial statements</b>	Assuming the satisfactory completion of our remaining procedures, we intend to issue an unqualified opinion on the Council’s financial statements for the year ended 31 March 2014.
<b>The Council’s local government pension scheme annual report</b>	Assuming the satisfactory completion of our remaining procedures, we intend to issue an unqualified opinion on the Council’s pension scheme annual report for the year ended 31 March 2014.
<b>Value for money conclusion</b>	We intend to issue an unmodified conclusion on the Council’s arrangements for securing value for money for the year ended 31 March 2014.
<b>Whole of Government Accounts return</b>	We intend to meet the National Audit Office reporting deadline of 4 October 2014. Assuming satisfactory completion of our procedures, we intend to report that the consolidated return is consistent with our audited statutory accounts and we have no errors in excess of the reporting threshold to report.
<b>Grants certification</b>	We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders regarding compliance with aspects of the terms on which funds have been granted. Grant procedures are currently ongoing in accordance with the agreed timetable. We will issue a separate annual audit letter in respect of grants in early 2015, but at this stage there are no matters we wish to bring to your attention.

# 1. Purpose and responsibilities

## Purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Council has relevant safeguards and properly accounts for public money.

The Letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and should also be published on the Council’s website.

## Responsibilities of the appointed auditor and the Council

### Responsibilities of the appointed auditor

We have been appointed as the Council’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities.

As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code). Under the Code, we review and report on:

- the Council’s financial statements;
- the Council’s local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) in respect of its local authority functions.

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

### Responsibilities of the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

As part of our procedures we have considered how the Council has fulfilled these responsibilities.

## 2. Financial reporting

### Key issues arising from the audit of the Council's financial statements

We have issued a separate report to the Audit Committee for the year ended 31 March 2014, which details the findings from our audit of the financial statements and the Council's value for money arrangements.

In that report we explained how we focused our work on areas which involve more complex accounting judgements and estimation. A summary of the significant risks identified as part of our audit is included below:

Significant audit risk	Conclusion
<b>Grant income recognition</b>	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.
<b>Bad debt provision against sundry debt</b>	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.
<b>Recording of capital spend</b>	We identified this as a significant risk because of the size 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.
<b>Management override of controls</b>	We have not identified any material weaknesses in controls or any evidence of management override.

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

Our report to the Audit Committee also included some recommendations to assist with future financial control and reporting. The recommendations made in the current year were regarding fixed asset valuations.

### Key issues arising from the audit of the Pension scheme annual report

We will report our findings on the audit of the Pension scheme in a separate report to the Audit Committee. No significant issues were identified in relation to the audit.

### Key issues arising from the work performed 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 used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

Based on satisfactory completion of remaining procedures we intend to report to the National Audit Office on the Whole of Government Accounts ahead of the 4 October deadline. We intend to report that we consider the consolidation return to be consistent with the audited statutory accounts and that there are no uncorrected errors above £1m to report.

# 3. Value for Money

## 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 addition to the procedures specified above, specific information considered included 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.

We concluded that there were no significant risks which required us to perform further work, and we propose to issue an unmodified value for money conclusion.

## 4. Purpose of our report and responsibility statement

### What we report

- Our report is designed to help the Audit Committee and the Accounting Officer and Council discharge their governance duties.
- The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.
- This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

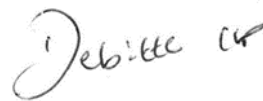
### What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Officers 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**  
Chartered Accountants

St Albans  
10 September 2014

# Appendix 1: Independence and fees

**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.

	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 ( <b>Note 2</b> )	211.5	207.1
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	<b>232.5</b>	<b>228.1</b>
Fees payable for the certification of grant claims	57.6	90.2
<b>Total fees payable in respect of our role as Appointed Auditor</b>	<b>290.1</b>	<b>318.3</b>
<b>Non audit fees</b>		
Deloitte Real Estate contract monitoring engagement ( <b>Note 1</b> )	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.



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