



London Borough of Hillingdon

Final Report to the Audit Committee

On the audit for the year ending 31 March 2009

**For presentation to the Audit Committee on
16 December 2009**

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Executive Summary

Background

We have pleasure in setting out in this document our updated report to the Audit Committee of London Borough of Hillingdon (LBH) on the audit for the year ended 31 March 2009 for discussion at the meeting scheduled for 16 December 2009. We previously issued a report on the audit for the meeting held on 22 September 2009. At that time there were a number of areas of the audit where further work was required before concluding on our opinion on the accounts. This report explains the results of that work, and the final uncorrected misstatements identified in the accounts.

Other than those items detailed in this update report, all items remain unchanged from the report issued in draft for the Audit Committee meeting on 22 September 2009.

Materiality and identified misstatements

Audit materiality was £6.390 million and has been calculated based upon gross expenditure.

We report to those charged with governance on all adjusted and unadjusted misstatements greater than 5% of materiality or £0.320 million unless they are qualitatively material.

Identified uncorrected misstatements decrease net assets by £3.667 million. Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. Details of the audit adjustments are included in Appendix 1.

In our draft report, we informed the Audit Committee that, at the time of writing, identified uncorrected misstatements decreased net income by £1.935m. Section 1 of this update report provides details of the changes.

Executive Summary (continued)

Audit status

We have completed our audit work on the financial statements. At the time of our previous report, there was further work to be performed on a number of areas. We reported that we anticipated being able to issue an unqualified opinion on the financial statements for the year ending 31 March 2009. We issued an unqualified opinion on 30 September 2009.

Acknowledgement

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

1. Materiality and identified misstatements

Materiality

The materiality level for LBH was calculated based upon gross expenditure of LBH. The materiality applied to the audit for the year ending 31 March 2009 was £6.390 million. We report to those charged with governance on all adjusted and unadjusted misstatements greater than 5% of materiality or £0.320 million unless they are qualitatively material.

Unadjusted misstatements

Total misstatements identified during the audit process but unadjusted by management decrease net assets by £3.667 million. Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. A summary of the final audit adjustments can be found in Appendix 1.

1. Materiality and identified misstatements (cont)

Changes in identified misstatements from the previous report to Audit Committee

Previously reported unadjusted errors

£1.935 million

Previously reported adjustment posted

We previously reported an unadjusted error relating to the Asylum Seekers Support Grant which management have subsequently posted. This has had the effect of reducing the estimated grant debtor by £0.242 million. The originally reported unadjusted error would have reduced the estimated grant debtor by £0.267 million. The adjustment arose as estimates are used for some grant balance in the accounts when they are initially compiled.

Amendment to previously reported unadjusted error

Our report to Audit Committee in September included a £0.774 million unadjusted error to increase the provision for doubtful debts relating to the National Non Domestic Rates (NNDR) debtors in the accounts. This was subsequently revised to be an error with a neutral impact on the Council's income and expenditure position, as the increase in bad debt provision would be covered by adjustments to the NNDR national pooling arrangements.

New unadjusted error

We reported in the 'Other issues' section of our report to Audit Committee on 22 September 2009 that there was £2.239 million of recorded expenditure which the Authority was claiming through the Unaccompanied Children's Asylum Grant under a 'Special Representations Bid'. The Authority has received 100% of such bids made in the past, and has recorded the income and associated debtor. Technical accounting guidance requires that a greater level of certainty exist over the income than is considered to be present here prior to recognition of the income. While we recognise management's views, we have included a proposed adjustment which removes the income recognised by the Council for the Special Representations Bid as we do not consider that there was reasonable assurance it would be received.

Final unadjusted errors balance

£3.667 million

1. Materiality and identified misstatements (cont)

The new unadjusted error detailed on page 4 relating to the Unaccompanied Children's Asylum Grant Special Representations Bid has been reported as an unadjusted error given the level of uncertainty over the related income which existed at the time of signing the accounts. Since then, the UK Borders Agency has confirmed to the Council that £2.202 million will be paid under the Special Representations Bid relating to 2008/09.

The issue relating to Council income relating to this error has therefore been resolved in the favour of the Council. We consider that the technical error remains in the accounts, however, as the question over certainty of receipt of the income as at the accounting date (31 March 2009) means that the income would be more appropriately recorded in the 2009/10 financial year. This is a technical matter, however, which will self correct in the 2009/10 accounts, though a similar issue may arise again should a Special Representation Bid be made for 2009/10 which is similarly uncertain at the next year end.

2. Responsibility statement

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

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

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of London Borough of Hillingdon Council's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

We view this report as part of our service to you for use as Members for corporate governance purposes and it is to you alone that we owe a responsibility to its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any purpose. It should not be made available to any other parties without our prior written consent.

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

Deloitte LLP
Chartered Accountants

Birmingham

December 2009

Appendix 1: Audit adjustments

Unadjusted misstatements

We report all individual identified misstatements in excess of £0.320 million and other identified misstatements in aggregate which have not been adjusted by management in the table below.

	Note & explanation	Credit/ (charge) to current year Collection Fund £'000	Credit/ (charge) to current year Income & Expenditure Account £'000	Increase/ (decrease) in net assets £'000
Errors of fact				
Recognition of unconditional government grants	[1]	-	898	898
Impairments for investments held in Icelandic Banks	[2]	-	(35)	(35)
Deferred revenue grant carry forward	[3]	-	1,490	1,490
Differences in judgement				
Imported Goods creditor	[4]	-	-	-
Council Tax bad debt provision	[5]	(3,781)	-	(3,781)
Non Domestic Rates bad debt provision	[6]	-	-	-
Asylum Seekers Grant Special Representation Bid	[7]	-	(2,239)	(2,239)
Total		(3,781)	114	(3,667)

Appendix 1: Audit adjustments (continued)

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

- [1] We have identified that there were instances where government grants that did not have specific conditions attached to them had not been recognised as revenue. We identified the Preventative Technology Grant (£877k) and also the Access and Systems Capacity Grant (£21k). The impact of this unadjusted misstatement is that income in 2008/09 is understated.
- [2] We have identified that, based upon the latest projected rate of return on investments held in Icelandic banks that a further impairment should be made to reflect the projected return. The impact of the unadjusted misstatement is that the carrying value of investments is potentially overstated by £35k
- [3] We identified Home Improvement Grants which had been carried forward within government grant deferred. As these fund revenue expenditure, they should be taken in full to income in the year in which they are applied. The impact of this is that liabilities are overstated and income understated. There is a compensating adjustment within the Statement of Movement on General Fund balances which means the effect on the General Fund is neutral.
- [4] LBH provides a service to check imported food at Heathrow airport, and although not a profit making service (rates are set by central Government), surpluses have built up. We suggest that these should be released to an Earmarked Reserve.
- [5] Review of the Council Tax provision shows the provision to be lower than we would expect. An adjustment has been proposed to increase the provision for Bailiff debtors and debts over 5 years old.
- [6] Review of the Non Domestic Rates provision shows the provision to be £0.774 million lower than we would expect. However, an equivalent adjustment to NNDR pooling arrangements would lead to a neutral impact on the Council's accounts.
- [7] Relates to the Special Representation bid for further funding for service provided for asylum seekers. An adjustment has been proposed to reflect that it a greater degree of certainty is required before the funding should be recognised.

Appendix 1: Audit adjustments (continued)

Recorded audit adjustments

We report all individual identified recorded audit adjustments in excess of £0.320 million and other identified misstatements in aggregate adjusted by management in the table below.

	Accounts Line	Note & explanation	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000
Errors of fact				
Surestart creditor	Govt debtors	[1]		(368)
	Govt creditors			368
Reclassification of year end balance relating to FE Pension Scheme	Govt debtors	[2]		80k
	Govt creditors			(80k)
Correction to overstatement of debtors and creditors relating to school balances	Other public body debtors	[3]		(648)
	Other public body creditors			648
Reclassification of debit balances	Govt debtors	[4]		4,299
	Govt creditors			(4,299)
Asylum seekers grant	Bad debt provision expense	[5]	(242)	
	Bad debt provision			(242)

Appendix 1: Audit adjustments (continued)

- [1] An adjustment to Surestart funding to correctly reflect the year end balance as a creditor.
- [2] An adjustment to reclassify debtors and creditors in relation to the FE Pension Scheme.
- [3] An adjustment to correct the overstatement of both debtors and creditors relating to year end schools balances, to ensure both are fairly stated.
- [4] An adjustment made to the reclassification of debit balances in creditors, relating to the housing benefit claim.
- [5] An adjustment to amend the provision for over and under 18 Asylum Seekers Grant.

Disclosure deficiencies

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



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