London Borough of Hillingdon

External audit report to the Audit Committee on the audit for the year ended 31 March 2015




10 September 2015

Contents

A reminder of our audit plan:

- Materiality set at £9.5m (2014: £10.1m)
- Threshold for reporting misstatements set at £473k (2014: £505k)
- Significant risks over recognition of grant income; recording of capital spend; and management override of controls.
- We have taken a mainly substantive audit approach in accordance with our audit plan.

We further identified significant risks in respect of the valuation of the Council's pension liability and the revaluation of it's properties due to the significant movement in their valuation; and accounting for schools as a result of the finalisation of the guidance since we issued our 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.

The big picture

Significant audit risk	Conclusion
Recognition of grant income	Grant income is a significant audit risk due to the requirement for management to consider each type of grant individually to consider the appropriate treatment, and the associated judgement in relation to this. Grant income was £466.7m for the year (2013/14: £475.6m). Our testing concluded that grant income recognition is appropriate.
Recording of capital spend	We identified this as a significant risk because of the volume of capital spend in the financial year (£63.8m in 2014/15 and £81.2m in 2013/14) and the judgment involved in classifying revenue and capital expenditure. Our testing did not identify any significant issues.
Management override of controls	We have not identified any material weaknesses in controls or any evidence of management override. We have not identified any examples of inappropriate judgement being applied.
Valuation of the pension liability	The valuation of the Council's pension scheme liability is a significant audit risk due to the significant impact of the actuarial loss of £90.9m (2013/14: gain of £8.0m) and the judgement involved in assessing the value of future liabilities in relation to members. We considered the assumptions used to calculate the liability relating to the London Borough of Hillingdon Pension fund to fall within a reasonable range when compared to the Deloitte in-house benchmarks.
Revaluation of properties	In 2014/15 the Council revalued a range of assets including schools, garages, allotments and a number of other asset types. This has resulted in a £75.0m gain on revaluation. We concluded that the assumptions used were broadly reasonable but have identified a number of recommendations, more details of which are included on page 13.
Accounting for schools	The 2014/15 Code of Practice on Local Authority Accounting requires local authority maintained schools to be treated as entities for financial reporting purposes in accordance with International Financial Reporting Standard ("IFRS") 10 Consolidated Financial Statements. We considered the exercise management has undertaken to identify which schools should be capitalised, together with the accounting for the prior year restatement and have concluded that the Council has accounted for this correctly.

Other areas of responsibility	
Value for Money (VFM)	In our audit plan, issued in December 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 after our planning work was undertaken. This work did not identify any significant risks and so we anticipate issuing an unmodified 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 communicated with management minor 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 substantially complete and is summarised in a separate report presented to you. Grants certification procedures are ongoing and findings will be reported to you on completion of this work.

The big picture (continued)

Audit progress and areas to complete

- Our audit is largely complete. The following are the remaining areas we are required to complete to finalise the audit:
    - Update on the ongoing legal proceeding.
    - Completion of our grant certification procedures on the Housing Benefit (“BEN01”) return.
    - Completion of internal quality assurance procedures.
    - Receipt and review of the final version of Statement of Accounts.
    - Updating our review of events since 31 March 2015.
    - Receipt of signed management representation letter.

We are working to complete these outstanding audit matters and will update you in respect of any significant modifications to the findings or opinions contained in this report that arise on completion of these matters.

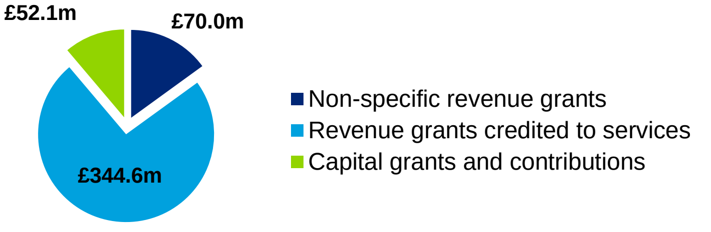
We note that the resolution of the open matters referred to above may warrant additional representations from the Council; if this is the case we will discuss these with you in advance of finalising the letter of representation.

Subject to satisfactory conclusion of the above matters, we expect to issue an unqualified opinion on the financial statements.

1. Grant income recognition

We consider the Council's revenue and capital grant recognition to be reasonable

	Income
2014/15 Actual	**£466.7m**
2013/14 Actual	**£475.6m**



Nature of risk

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

- the complex nature of accounting for grant income, as the basis for revenue recognition in the financial statements will depend on guidance associated with each individual grant, assessing whether any conditions have been met; and
- the volume and value of grants recognised by the Council year on year.

Total grant income recognised in the 2014/15 year is significant at £466.7m (2013/14: £475.6m).

Key judgement areas, their 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.

Deloitte view

The full amount of £7.2m outstanding in relation to the S106 agreement with regards to RAF Uxbridge site, has been disclosed as a long term debtor. The S106 agreement states the Council will receive a total sum of £8.6m for education contributions, of which £1.4m has already been received. The remaining £7.2m will be paid in equal proportions upon completion of every 200 dwellings, of which approximately 100 were completed at year end. On the basis the Council are not certain of whether a further 100 dwellings will be completed before the end of 2015/16, a prudent view has been taken and the full £7.2m has been disclosed as a long term debtor. This would appear reasonable and we are therefore satisfied with the disclosure of the full amount as a long term debtor.

Our testing did not identify any other issues.

2. Recording of capital spend

No significant issues were identified from our testing

	Capital expenditure
2014/15 Actual	**£74.7m**
2013/14 Actual	**£91.2m**

Nature of risk

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

- A forecast of significant capital spend for the 2014/15 year in comparison with previous years; and
- There being a management judgement on classification of expenditure as revenue or expenditure.

Key judgement areas, their 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.

Deloitte view

Our testing did not identify any significant issues with respect to the capitalisation of expenditure, specifically with respect to the improper capitalisation of revenue expenditure.

We note that the capital budget set in February 2014 of £119.8m was revised throughout the year on an ongoing basis to £92.8m, for planned variations including projects pushed back from 2013/14 (£3.7m), projects brought forward from 2015/16 (£8.7m), projects pushed back to 2015/16 (£44.1m) and new projects being identified (£1.8m). The council recorded a further underspend against this budget by the end of 2014/15 of over £20m. We are aware that this is not inconsistent with previous years and that it is normal practice for the council to revise the budget prior to the completion of the financial year, as budgets are set over 1 year in advance. The adequacy of the council's arrangements to accurately budget and forecast spend is a matter relevant to our value for money responsibilities, and a significant underspend on budget could be indicative of a weakness in those arrangements. We have discussed this matter with management and we understand that the reason for the underspend is firstly due to cost underspends of £9.6m and the phasing variances of £12.2m. Taking into consideration the explanations made by management, the fact that there is an underspend rather than an overspend, and that no other matters have come to our attention through our procedures that indicate a significant issue with respect to service delivery as a result of the underspend, we have concluded that this matter is not material to our value for money conclusion.

3. 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 valuation of both the Council's properties and its pension scheme liability and have discussed our approach and findings in this area on the followings 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 2015 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.

Description of the risk	←					Acceptable Range					→			
Bad debt provisions	Overly Cautious and/or likely to be a future credit					✓ PY								Overly Optimistic and/or likely to be a future debit
Pension liability					✓		PY							
Asset valuation							✓ PY							

✓ **Current Year Assessment** PY **Previous Year Assessment (if relevant)**

G	No issues noted	A	Adjustment identified	R	Material unresolved matter

Deloitte view

No significant issues were identified from testing.

4. Valuation of pension liability

No significant issues were identified from our testing

	Net pension liability	Actuarial loss/(gain) on pension assets and liabilities
2014/15 Actual	**£485.2m**	**£90.9m**
2013/14 Actual	**£381.9m**	**(£8.0m)**

Nature of risk

The pension liability is substantial and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions, which draw on market prices and other economic indices, can be volatile.

We did not identify pension accounting as an area of significant audit risk in our planning report as there is no impact on the general fund reserve from the accounting entries made under IFRS as these are all eliminated due to the difference between the statutory and funding basis of producing the statement of Accounts. However, as a result of the significant increase in the account balance, we have subsequently reclassified this risk from normal to significant.

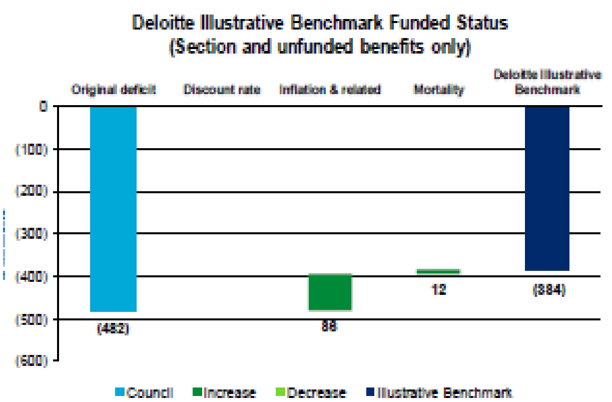
Key judgement areas, their impact on the financial statements and our audit challenge

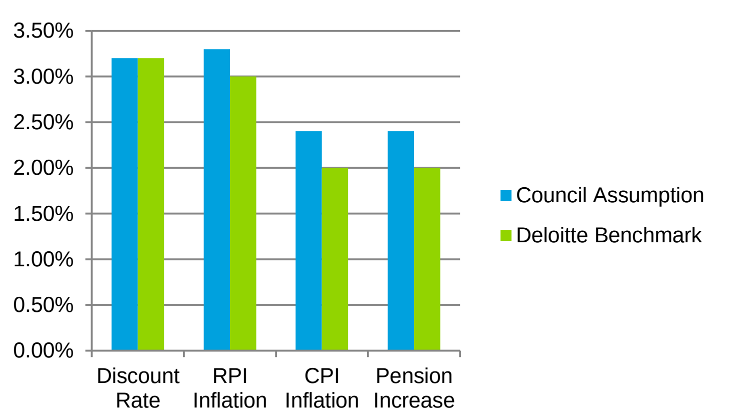
We considered the Council’s arrangements, including the use of actuarial services to calculate the pension liability for the London Borough of Hillingdon Pension Fund (“LBH”) of £482.1m (2013/14: £379.2m), to be reasonable. We engaged our own actuarial experts to assist in the review of the assumptions used to calculate the pension liability and the resulting accounting entries and disclosures. Our actuaries did not undertake a high level review of the assumptions used in calculating the London Pension Fund Authority Pension Fund (“LPFA”) net pension liability due to the size of the liability being immaterial at £3.1m (2013/14: £2.7m).

We have performed consistency checks between the value of assets and membership data used in the actuarial report to the pension scheme financial statements.

Our actuaries have concluded that the assumptions used in the calculation are towards the more prudent end of a range which we consider to be reasonable. We highlight that the assumptions used in the prior year were also considered to be reasonable.

Whilst we consider the Council’s overall assumptions, and therefore the net pension liability, to be materially reasonable, for illustrative purposes we have shown below the difference in individual assumptions between the Council’s approach and our own ‘In house’ benchmarks.





4. Valuation of pension liability

No significant issues were identified from our testing

Deloitte view

No significant issues were identified from testing, with all assumptions used falling within our tolerable threshold. With the difference between the Council's disclosed deficit of £482m and the deficit using Deloitte's assumptions of £384m giving a difference of £98m, the Council are being more prudent in their valuation of the pension liability, with the difference being £89m in the prior year. This explains the movement in the pension liability valuation on the prudence scale on page 6.

We identified a significant difference between the assets per the Pension Fund accounts and the latest liability report. We concluded this difference was as a result of the shift in the number of members allocated to the Council with a 5% reduction in the number of members since the last formal valuation coinciding with a 4.3% reduction in the allocation of assets. The difference identified is not material and given the application of prudent assumptions above, results in a slightly less prudent valuation of the pension fund liability.

5. Revaluation of properties

No significant issues were identified from our testing

	Opening net book value of assets under scope of revaluation	Revaluation gain
2014/15 Actual	**£1,222m**	**£75.0m**
2013/14 Actual	**£1,195m**	**£25.4m**

Nature of risk

The Council's substantial portfolio of assets is subject to a rolling five year revaluation programme. In the 2014/15 year the Council undertook a detailed revaluation of assets with a carrying value of £786m, which equates to 64% of the £1.2bn carried in the balance sheet value of assets under the scope of revaluation at 31 March 2015. The assets subject to a detailed revaluation in 2014/15 included schools, garages and allotments. together with a number of other asset types.

We identified this as a risk because of the size of the property balance in relation to the overall financial statements, and because any valuation is subject to estimates and assumptions.

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

We engaged our property specialists Deloitte Real Estate ("DRE") to review the assumptions and methodology used to value the different types of land and property. Overall we concluded that the valuation methods selected, and the way in which those methods were applied, were reasonable. However we have raised a number of management recommendations regarding the valuation process and consistency of methodology application, detailed further on page 13.

As part of our testing we also considered whether there was any evidence of impairment to assets which might mean the carrying value of other assets was not appropriate. Our testing did not identify any instances where this was the case.

Deloitte view

No significant issues were identified from testing, with all assumptions used falling within our tolerable threshold.

6. Accounting for schools

No significant issues were identified from our testing

	Academies derecognised	Maintained schools capitalised
2014/15 Actual	**£68.6m***	**-**
2013/14 Actual	**£18.2m***	**£62.0m (restatement)****

* The derecognition of schools that have converted to academies results in a reduction in other land and buildings and a loss debited to the comprehensive income and expenditure statement.

** The capitalisation of maintained schools results in an increase in other land and buildings and an increase to capital adjustment account given it is a restatement.

Nature of risk

The 2015 Accounting Code requires local authority maintained schools (community, voluntary aided, voluntary controlled and foundation) to be treated as entities for financial reporting purposes in accordance with IFRS 10, and adapts the definition of single entity financial statements so that schools are consolidated into these statements.

This creates an area of judgement as both control and ownership are required in order to meet the capitalisation criteria of this standard. The application of this judgement, together with the accounting of the sizeable prior year restatement of £62.0m has resulted in this area being identified as a significant risk.

In addition to the treatment of maintained schools in the current year, every year the Council is required to derecognise the full value of any school that has converted to an academy during the course of the year. This area requires less judgement but year on year a material value of schools are converted.

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

We considered the Council's arrangements for identifying the schools that would require capitalisation, evidencing both control and ownership. We note that the Council has used the financial statements of the Church of England as well as receiving a letter from the Diocese of Westminster both of which confirms the school assets which are owned and controlled by the respective parties.

We have verified the status of all schools capitalised, and the schools that converted to academy status through to Edubase, the public portal of the Department of Education that lists all schools and academies.

We have tested the accounting for the prior year restatement and have not identified any issues with respect to how these have been brought onto balance sheet or their subsequent treatment.

Deloitte view

No significant issues were identified from testing.

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 2015
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 2014/15; 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 in December 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 raised in the prior year, control issues identified with regard to data reporting and accuracy of housing rent arrears and the need for a stronger, school-led, school improvement approach. All areas have been discussed within the Annual Governance Statement, and the extent of plans in place regarding the challenging future savings which the Council must realise in the medium term.

Value for Money (VfM) (continued)

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

The below table is a summary from the Medium Term Financial Forecast ("MTFF") presented to the Council in February 2015.

	2014/15 Unaudited £000	2015/16 MTFF £000	2016/17 MTFF £000	2017/18 MTFF £000	2018/19 MTFF £000	2019/20 MTFF £000
General Fund resources	212,188	203,592	198,861	194,404	191,597	190,903
General Fund spend	(207,664)	(203,592)	(198,861)	(194,404)	(191,597)	(190,903)
Surplus / (deficit)	4,524	-	-	-	-	-
Planned draw down on reserves	-	(5,000)	(4,000)	(3,000)	(2,000)	(1,000)
Savings requirement (cumulative)	12,802	9,907	26,182	42,440	53,223	63,352
Year on year savings requirement	12,802	9,907	16,275	16,258	10,783	10,129
Of which unallocated	-	-	11,715	13,622	8,726	9,941
Of which banked	14,864					
% achieved	90.1%					

Deloitte view

In respect of financial resilience, we have considered past years' performance, current year performance and post year-end performance in respect of financial planning and achievement of budgets.

- The Council has continued to contribute to reserves and is forecasting that it will draw down immaterial amounts over the next 5 years which given the size of the reserves does not represent a potential significant risk.
- The Council has been within its budget forecast (within immaterial variances) within recent years, achieving a £4.5m surplus in 2014/15 and over £6m in the previous 3 years, and is on track to do so again in 2015/16. We note that at Month 2 in 2015/16, current underspend against budget is £45k.
- We note that historical analysis shows the Council has achieved c87% of its identified cost savings target within the last 3 years (with additional savings being realised by bringing forward future year initiatives or identifying other savings elsewhere). At this level, any potential underachievement in the coming years does not pose a significant risk. The average savings achieved over the past 4 years has been £14m and with an average savings target of c£13m a year, there is an insignificant difference. Nothing has come to our attention throughout our testing which would indicate the Council has inadequate controls in place to accurately forecast and deliver against their cost improvement plan.
- The 2015/16 savings plan has been fully allocated and the Council are currently in the process of finalising savings initiatives for 2016/17 and beyond. We note of the savings plan detailed above for 2015/16, £1,761k has already been banked and a further £4,265k are on track for full delivery. The remaining amounts are in the early stage of implementation.
- We also note that the Council has a number of options available to them to achieve further savings, including but not limited to the raising of council tax and other services as well as cutting of future capital expenditure.

On completion of our risk assessment procedures 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.

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:

<table>
<tr><th>Description</th><th colspan="2">Observation and Deloitte recommendation</th><th>Status</th></tr>
<tr><td rowspan="3">Fixed asset valuation</td><td colspan="2">We understand that the Council is looking to outsource the valuation of its assets in future years and, whilst we have concluded that the valuation is not materially misstated, we have identified a number of areas for improvement in the approach and evidence supporting the approach undertaken to value the Council's properties:
• Level of componentisation: Limited information regarding the level of componentisation is provided within the valuer’s report, with the threshold for componentisation being set at a high enough level that no assets fell within this threshold. We recommend the valuer considers the threshold for componentisation.
• Provision of fair values on an existing use value: No detail has been included in the main report on how the fair values have been derived. We recommend that further detail is included within the report on how these values have been calculated.
• Inspection process: No detail has been included in the main report regarding inspection of asset classes such as investment assets. We would recommend that further detail is included in the report regarding the inspection process, together with the impact any restricted inspection may have on conclusions.
• Provision of full inspection report: We were not provided with a full report but rather sections of the report, together with accompanying spreadsheets. We would recommend that future reports contain all information, including work carried out and assumptions made in arriving at the values reported.
• Taxation, acquisition and disposal costs: No allowance was made for taxation, acquisition and disposal costs. We recommend that the finance team satisfy themselves this is appropriate and that they have been informed by the valuer that reported values exclude such costs.
• Use of Modern Equivalent Asset basis: The valuation of land elements does not fully reflect MEA considerations with the sample of assets reviewed having smaller than MEA site areas. Furthermore it would appear the valuer’s MEA considerations did not directly relate to the consideration of building or site sizes or locations. We recommend that the valuer should further consider asset location and sizes with regard to MEA basis and give greater consider to obsolescence factors.
• Obsolescence factors: The methodology behind the consideration of obsolescence factors is not clear or consistent between assets. We recommend that the valuer clarifies the methodology used and considers the consistency of the approach taken.</td><td rowspan="3">A</td></tr>
<tr><td colspan="2">Management response

Management acknowledge the recommendations and will ensure they are incorporated in the new contract specification for the outsourced valuation services for implementation from the 2015/16 accounts</td></tr>
<tr><td>Timeframe: Michael Paterson – Interim Head of Estates and Tenancy Management</td><td>Owner: January 2016</td></tr>
</table>

Y Minor control recommendation   A Requires improvement   R Significant improvement required

Internal control observations (continued)

Update on prior year recommendations made

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.	●
	Management update on recommendations not yet implemented Management have confirmed that the Council continues to adopt the correct approach with respect to the MEA basis and that documentation review has been implemented during the course of the year.	

Key: Completed | Partially complete | Not yet completed

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 2015

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 and corrected misstatements

We only report to you uncorrected misstatements that are either qualitatively material or exceed the clearly trivial threshold of £473,000. We reported no such misstatements in excess of this threshold.

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 small number of disclosure amendments, we consider them to be minor in nature.

Appendix 2: Management representation letter

The draft management representation letter for the 2014/15 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/RLG/2015

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 2015 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 2015 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 Accounts and Audit Regulations 2010.

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 effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.

7. 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.

8. 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.

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

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

11. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in Note 40 to the financial statements all guarantees that we have given to third parties.

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

13. 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.

14. 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.

15. 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

16. We have provided you with all relevant information and access.

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

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

19. 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.

20. 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.

21. 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.

22. 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

23. 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.

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

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

26. 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 2014/15

The table below details our audit fees and non-audit fees for the year ending 31 March 2015 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**)	210.6	210.6
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	231.6	**231.6**
Fees payable for the certification of grant claims	66.4	45.3
Total fees payable in respect of our role as Appointed Auditor	**298.0**	**276.9**
Non audit fees		
Deloitte Real Estate contract monitoring engagement (**Note 1**)	10.0	53.6

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 2: The fee of £210,600 includes a fee of £3,450 (2013/2014: £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.