London Borough of Hillingdon

Report to the Audit Committee on the 2009/10 Audit

Planning Report

Contents

This report has been prepared solely on the basis of our initial planning activities for our audit, and as such does not constitute a comprehensive review of any weaknesses in existing systems. It should be read in conjunction with the "Briefing on audit matters" included in Appendix 2.

This report has been prepared for your use as members of the Audit Committee for governance purposes and it is to you alone that we owe a responsibility for 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 other purpose. In the event that a third party asks to see this report, please ask for our consent before releasing it.

Executive summary

We have pleasure in setting out in this document details of our proposed audit for the London Borough of Hillingdon ('the Council') for the year ending 31 March 2010.

Audit scope	Our audit will be carried out in accordance with the Audit Commission's Code of Audit Practice 2008. Our primary audit responsibilities are also summarised in the "Briefing on Audit Matters" paper which is included in Appendix 2. In summary, under the Audit Commission's Code of Audit Practice we have responsibilities in two main areas: • the financial statements and the Annual Governance Statement; and • aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This document deals mainly with the first of these two responsibilities, i.e. the audit of the financial statements and Annual Governance Statement. The second responsibility was dealt with in our fee letter for 2009/10, issued in April 2009. The Council will need to prepare accounts under International Financial Reporting Standards ("IFRS") for the first time for the year ended 31 March 2011. This plan excludes any work we perform now on the opening IFRS balance sheet for the comparative period. The audit of the Council's Local Government Pension Scheme is dealt with in a separate audit plan and not in this one.

Materiality	Materiality levels are calculated on the basis of gross expenditure. We estimate materiality based on expected gross expenditure for the full year to be £6m. Based on this estimated materiality we would report to the Audit Committee on all unadjusted misstatements greater than £0.3m, unless they are qualitatively material. Please see Appendix 2 Briefing on Audit Matters for detail on the terminology.

Executive summary (continued)

The key audit risks we have identified as part of our overall strategy are:

Key Financial audit risks	1) Grant income recognition - an issue was noted in our 2008/09 audit over the level of certainty connected to the special representation bid for funding for services provided for asylum seekers. The result of this in 2008/09 was de-recognition of the income associated with this bid. Income recognition on this and other grants is considered to be an audit risk.
	2) Property valuations - this represents a risk in view of the size of the Council's property portfolio and sensitivity of the valuation to changes in assumption, including volatility of market prices in the current economic environment.
	3) Bad debt provisions - the challenging economic environment and its impact on debt recovery continues to create uncertainties in the estimation of provisions.
	4) Valuation of Icelandic investments - an impairment of £4.95m was included in the 2008/09 Income and Expenditure account, and subsequently reversed out to the Financial Instrument Account in accordance with statutory regulation. The level of impairment will need to be re-assessed based on current information as at 31 March 2010. In addition, the ongoing accounting treatment of the impairment is subject to a decision by Communities and Local Government ("CLG"), and we understand that the Council is challenging the recent decision indicated.
	5) Pension liability assumptions - this is a risk in view of the size and complexity of this area, as well as the continuing impact of volatility in the current economic environment which impacts on key assumptions in the calculation of the liability.
	6) Accounting for local taxes - this is a risk as the statement of recommended practice ("SORP") has been updated to give guidance on the accounting for Council Tax and National Non Domestic Rates ("NNDR"). The Council's past practice is in line with past industry practice in material respects but differs to the new guidance in the 2009 SORP.

Executive summary (continued)

Key Non-Financial audit risk	7) Contract procurement - the Council is a large organisation with various departments and partnership arrangements and all areas of Council operations should comply with key policies and procedures. We are aware of issues in relation to procurement at Hillingdon Grid for Learning, and consider this to be part of a wider risk across the Council.
	8) Partnership working – public agencies in all areas are expected to work effectively with eachother in order to provide residents with effective and efficient services. The Council has developed a Sustainable Community Strategy with the Local Strategic Partnership in order to provide a basis for effective partnership working. This requires additional governance, risk management and performance assessment processes to be in place. Additionally an issue with one partner may affect others in the partnership.

Other issues	Other issues which have not currently been identified as audit risks, but will be monitored through the 2009/10 audit are: 1. International Financial Reporting Standards ("IFRS"); 2. Faster close; 3. Cost reduction plan; and 4. Comprehensive area assessment implementation. These are discussed in more detail in Section 3.

Prior year uncorrected misstatements and disclosure deficiencies	The 2008/09 audit of the financial statements identified uncorrected misstatements which, if adjusted, would have led to a credit of £0.11m to the income and expenditure account, a charge of £3,78m to the collection fund and an equivalent decrease in net assets. Included within these misstatements was a credit of £2.35m relating to errors of fact with the balance relating to differences in judgement.

Executive summary (continued)

Timetable	The main deadlines remain unchanged at 30 June for draft accounts and 30 September for the audit opinion. We will continue to have monthly meetings with the financial management of the Council and our interim visit is scheduled for the 3 weeks starting 15 March 2010 with our final audit visit scheduled from 5 July 2010. We will issue our formal report to the Audit Committee on the audit at their meeting in September 2010. We will issue our audit report as soon as practicable following that meeting. The timetable is shown in more detail in Section 6.

Fees	We set out an estimate of our fees in a letter to the Council issued in April 2009. At that time, we estimated that our fee for the audit of the financial statements would be £373,500 (excluding fee for the audit of the pension scheme). Appendix 1 includes an analysis of our fees. We do not propose to change our original estimate.

Independence	Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in the "Independence policies and procedures" section of our Briefing on audit matters document which is included in Appendix 2. We will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2010 in our final report to the audit committee.

Matters for those charged with governance	We have communicated to you separately in our publication entitled "Briefing on audit matters" those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.

Looking forward	Whilst this report deals mainly with the audit of the accounts, we have also included, for your information, a summary of recent changes to the Use of Resources assessment process. This will impact on the assessment we will carry out under the 2010/11 Audit Plan, but part of the work will be carried out during the year ending 31 March 2010.

1. Scope of work and approach

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISA (UK and Ireland)”) as adopted by the UK Auditing Practices Board (“APB”). Our audit objectives are set out in our “Briefing on audit matters” document.

We have responsibilities in two areas:

- the statement of accounts and the Annual Governance Statement; and
- aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

The audit opinion on the accounts we intend to issue will reflect the financial reporting framework adopted by the Council, being the Statement of Recommended Practice for Local Authorities 2009.

For the 2009/10 financial statements, we will use the latest estimates of gross expenditure as the benchmark for our materiality assessment as this benchmark is deemed to be a critical component of the financial statements for a spending organisation.

We will apply a factor of 0.8% to this benchmark to determine a planning materiality. This percentage takes into account our knowledge of the Council, our assessment of audit risks and the reporting requirements for the Statement of Accounts. Materiality levels are calculated on the basis of gross expenditure. We estimate materiality based on expected gross expenditure for the full year to be £6m. Based on this estimated materiality we would report to the Audit Committee on all unadjusted misstatements greater than £0.3m, unless they are qualitatively material. The concept of materiality and its application to the audit approach are set out in our “Briefing on Audit Matters” document.

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements. Our audit objectives are set out and explained in more detail in our “Briefing on Audit Matters” document which is included in Appendix 2.

Other areas of work which are not covered by this audit plan

As last year, we have prepared a separate audit plan covering the work we carry out in relation to the Local Government Pension Scheme. As a result, this aspect of our work is not covered within this document. We also carry out work on behalf of the Audit Commission in respect of the certification of grant schemes. This was discussed in our April 2009 fee letter, and is also reported to you separately.

2. Financial performance and standing

We consider the Council's financial standing as part of our audit of the financial statements and this is an area we consider to be key in light of the economic downturn and ongoing pressures on public sector expenditure. We have liaised with the Council throughout the year to discuss issues that have arisen and the Council's approach to addressing these challenges. We have considered these issues when designing our audit risk areas which we communicate in this audit plan.

In setting its 2009/10 budget, the Council committed to 0% increase in council tax for its residents, and to providing £2.6m of new priority growth funding, both while maintaining balances and reserves at a minimum of £12m and absorbing an estimated £9m of additional cost pressures. To bridge the gap £7.5m of savings to be realised in 2009/10 were identified, and a reduction of balances and reserves down to the £12m target level was planned. In addition to these revenue issues, an £88.2m capital budget was put in place, including £14.2m of expenditure re-phased from 2008/09. Of the total capital budget, £44.1m was planned to be met from Council resources.

We have reviewed a summary of the Council's full year forecast as at month 9 compared to budget on a directorate basis. An overspend on normal revenue activities of £0.253m is forecast. Within this, the Adult Social care, Health and Housing directorate forecasts a £0.642m overspend (although the budget for this directorate has been reduced by £1.5m in the year with virements to other areas). We understand the overspend is primarily due to increased demand on Mental Health and Older People Services.

Variances against other items includes £1.6m pressure on asylum funding offset with an additional £1m in year saving identified and £2.3m credit from a review of balance sheet balances.

At month 9 we understand that the Council had spent only 56% of its revised capital budget and was forecasting an under-spend of £4.7m for the 2009/10 year.

Overall, the Council appears to be managing its resources effectively in these difficult times. The minimum target level of balances and reserves was £12m, and the current full year forecast position of £13.453m would be a positive position from which to enter 2010/11. Within this plan for the 2009/10 audit, potential risks identified throughout our budget analysis are covered in Sections 3 and 4. In addition, the impact on service delivery of reducing budgets and details of the efficiency savings plans will be reviewed in detail during the Use of Resources process discussed in Section 8.

3. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2009/10 on the following areas:

Risk 1: Grant income recognition	
Risk	Accounting for grant income can be complex as the timing of recognition in the accounts will depend on the scheme rules for each grant. In addition, full information on grant entitlement is not necessarily available to officers at the time of closing the accounts and it is therefore common for the accounts to be closed on the basis of estimates which may differ to actual entitlement shown in the claim when it is subsequently prepared. Our 2008/09 audit also identified an unadjusted misstatement of £2,24m relating to a special representation bid for further funding for services provided to asylum seekers. The Council had recognised this grant income in their accounts as it had received 100% of such bids made for previous accounting periods. However, Deloitte’s view is that technical accounting guidance requires a greater level of certainty over the income to be present before it is recognised. After the accounts were signed the Council found out that it been successful in its bid for 2008/09. However, funding for 2009/10 should only be included in the 2009/10 accounts if it has been granted before the accounts are signed due to the level of uncertainty that exists over the success of the special representation bids.
Deloitte response	We will examine guidance given to staff on the accounting for grants and associated operating instructions, and look at how the Council captures and considers information on differences arising on the preparation of claims during the period between closing the accounts and approving the final version of the accounts. We will also look at the Council’s process for reconciling year end grant balances as some misstatements in 2008/09 related to differences which appear to have arisen in 2007/08 or earlier and which were carried on the balance sheet at 31 March 2009, rather than being written off to revenue. We will also carry out extended testing to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been reconciled. We will specifically examine the grant income relating to the asylum seekers and will ascertain if the special representation bid for 2009/10 funding has been approved prior to the signing of the accounts. If the special representation bid has not been approved we would not expect the Council to record the income in their accounts and we have communicated, and the Council has agreed, this proposed treatment.

3. Key audit risks (continued)

Risk 2: Property valuations	
Risk	The Council has a substantial portfolio of properties which are subject to a rolling revaluation programme. Some of the properties require the application of specialist valuation assumptions. The credit crunch has affected property values, generally, and the Council is not immune to these effects. The 2008/09 financial statements included an impairment of approximately £60 million relating to tangible fixed assets. The Council will need to demonstrate that their tangible fixed assets are valued in accordance with the 2009 Statement of Recommended Practice ("SORP") at 31 March 2010.
Deloitte response	We will evaluate the Council's arrangements for updating market values, including the operation of its rolling programme of reviews and the qualifications, relevant experience and independence of specialists utilised to carry out valuations and review the reasonableness of key assumptions, including the effect on asset valuations from the recent economic and financial market events.

Risk 3: Bad debt provisions	
Risk	In our report to you on the findings from our 2008/09 audit we reported unadjusted misstatements related to provisions made against certain categories of debt. The challenging economic environment and its impact on debt recovery continues to create uncertainties in the estimation of provisions.
Deloitte response	We will review the Council's methodologies and assumptions used to calculate provisions and the evidence collected by officers to support its approach. Where appropriate, we will consider whether provisions appropriately reflect the impact of the current economic conditions by reference to recent collection performance and trends in performance.

3. Key audit risks (continued)

Risk 4: Valuation of Icelandic investments	
Risk	The 2008/09 financial statements included an impairment of approximately £4.95m million in relation to Icelandic investments. The value of the impairment at 31 March 2010 will need to be considered based on the latest available information. Changes in the value of the impairment will be required to be accounted for in accordance with technical accounting guidance. In addition, the ongoing accounting treatment of the impairment beyond 31 March 2010 is subject to a decision by CLG. We understand that the Council is challenging the recent decision indicated by CLG, and this will have an impact on the 2010/11 budget process.
Deloitte response	We will review the Council's calculations and assumptions in connection with the impairment on their Icelandic investments. We will review correspondence between the Council and the CLG on this issue to enable us to document our understanding of the case put forward by the Council.

Risk 5: Pension liability assumptions	
Risk	The pension liability relating to the pension scheme is substantial so that 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 draw on market prices and other economic indices and these have become more volatile during the current economic environment.
Deloitte response	We will consider the qualifications, relevant expertise and independence of the actuary engaged by the Council and the instructions and sources of information provided to the actuary. We will include a manager from our specialist pensions group within our engagement team to assist in the review of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

3. Key audit risks (continued)

Risk 6: Accounting for local taxes	
Risk	The 2009 SORP provides detailed guidance for the first time on the accounting for local taxes. Whilst Hillingdon’s past accounting practice is consistent with industry practice, it differs to the requirements of the new SORP and we therefore anticipate that changes will be needed both to current year and prior year information. The 2009 SORP recognises that the billing authority (i.e. Hillingdon) in the case of Council Tax acts as agent for the major precepting bodies (here, the Greater London Authority) and in the case of NNDR, as agent for central government. Past practice has been for billing authorities to account for the full amount of Council Tax and NNDR debtors on their balance sheet. However, given the billing authorities role as agent in collection, the 2009 SORP now requires that only the Council’s share for which it acts as principal is shown on its balance sheet.
Deloitte response	We will check that changes have been made in line with the requirements of the 2009 SORP.

Risk 7: Contract procurement	
Risk	The Council is a large organisation with various departments and partnership arrangements. All areas of Council operations should comply with certain key policies and procedures, including contract procurement. We are aware of issues in relation to procurement at Hillingdon Grid for Learning, and consider this to be part of a wider risk across the Council.
Deloitte response	We understand that Internal Audit have undertaken work on this area for the Council and will therefore review their working papers as part of our audit. We will seek to understand the areas of Council operation which may fall outside of the normal procurement oversight procedures and perform detailed testing on a sample of significant contracts awarded in the year to ensure Council procedures have been followed.

3. Key audit risks (continued)

Risk 8: Partnership working	
Risk	Public agencies in all areas are expected to work effectively with eachother in order to provide residents with effective and efficient services. The Council has developed a Sustainable Community Strategy with the Local Strategic Partnership in order to provide a basis for effective partnership working. This requires additional governance, risk management and performance assessment processes to be in place. Additionally an issue with one partner may affect others in the partnership.
Deloitte response	We considered the performance of the Local Strategic Partnership in 2008/09, and noted that the partnership had achieved a significant number of their targets, accessing additional performance based funding as a result. We will again consider the performance of the significant partnerships within which the Council participates and governances, risk management and value for money arrangements around them. We will also consider the impact of any issues with key partnerships on the Council.

4. Other issues

Other issues which have not currently been identified as audit risks but will be monitored throughout the 2009/10 audit are as follows:

Other Issue 1: International Financial Reporting Standards	
Background	The Council will need to prepare accounts under International Financial Reporting Standards ("IFRS") for the first time in 2010/11. This will require 2009/10 accounts to be restated under IFRS to provide the comparative figures in the 2010/11 accounts, which in turn requires the balance sheet as at 31 March 2009 to be restated. We understand that the finance department has invested notable resources in addressing the requirement to convert to IFRS, and ultimately Deloitte will need to review the processes undertaken and restated figures. We will agree a timetable and fee with you as and when the audit requirement is released. This plan excludes any work which we will carry out on the opening IFRS balance sheet as this will form part of our 2010/11 accounts audit plan.

Other Issue 2: Faster close	
Background	Our meetings with the Council's Chief Executive and Finance Team have indicated that the Council would like to have a faster closedown process both for the Draft Statement of Accounts approval and the final Statement of Accounts signed by the Audit Committee and ourselves. There is a risk with speeding up the closedown process that errors could be made and not found and rectified. This could then have an impact on the financial reporting score within the Use of Resources assessment. We will monitor through the 2009/10 audit whether the faster close process appears to have adversely impacted on the quality of the accounts.

4. Other issues (continued)

Other Issue 3:Cost reduction plan	
Background	The economic downturn has led to unprecedented pressure on public spending. Income across the Council from various sources is expected to decrease significantly over the coming years. In addition, Hillingdon has committed itself to 0% Council Tax increase for 2010/11, having already frozen Council Tax in 2009/10. As explained in Section 2, we understand that careful financial management means that the month 9 budget position indicated a positive budget variance of £1.453m was forecast for year end. In order to achieve this, £7.5m of savings were planned at the budget setting stage, with a further £1m of in-year savings taken out of the budget. For 2010/11, even more significant efficiency savings will be required. We are aware of a comprehensive process of service review and redesign which is underway at the Council. Delivery of efficiency plans and realisation of savings will become more important as 2009/10 ends and 2010/11 begins. However, there is also a risk that cutting costs could also reduce the quality of the services which the Council provides to its residents. We will consider this issue as part of our wide Use of Resources remit and in terms of any specific risks which it creates from an audit perspective (see Section 8).

Other Issue 4: Comprehensive area assessment implementation ("CAA")	
Background	This is the second year of CAA, which will be led by the Audit Commission CAA lead Annette Furley for North West London. The Council did well in the 2008/09 CAA, being awarded 'Three – Performing Well', also being awarded 'Green Flag' in relation to partnerships working to support unaccompanied asylum seeking children. CAA is a joint inspectorate process into which Deloitte will continue to make contributions.

5. Consideration of fraud

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

ISA (UK and Ireland) 240 – ‘The auditor’s responsibility to consider fraud in an audit of financial statements’ requires us to document an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in Hillingdon Council and the internal control that management has established to mitigate these risks.

We will make inquiries of management, internal audit and others within the Council as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Council. In addition we are required to discuss the following with the Audit Committee:

- Whether the Audit Committee has knowledge of any fraud, alleged or suspected fraud?
- The role that the Audit Committee exercises in oversight of:
    - Hillingdon Council’s assessment of the risks of fraud; and
    - the design and implementation of internal control to prevent and detect fraud?
- The Audit Committee’s assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Director of Finance & Resources in due course.

5. Consideration of fraud (continued)

Management override of controls

In addition to the procedures above we are required to design and perform audit procedures to respond to the risk of management's override of controls which will include:

- having understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, test the appropriateness of a sample of such entries and adjustments. We will again make use of our computer audit specialists to analyse the whole population of journals and identify those which have unusual features for further testing;
- a review of accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management. We will also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements. We will focus on bad debt provisions; and
- obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Council and its environment.

We are also required to presume that there are risks of fraud in revenue recognition and conduct our audit testing accordingly (unless the presumption is rebutted). (See Key audit risks in section 2 where we have identified a risk in relation to grant income).

6. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" included in Appendix 2, for controls considered to be ‘relevant to the audit’ we are required to evaluate the design of the controls and determine whether they have been implemented (“D & I”).

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Council, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

Liaison with internal audit

We have agreed with the Council’s Head of Internal Audit and Corporate Governance, that in the coming year, the external auditors will liaise with the Council’s internal audit function on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Council’s internal audit functions, their systems documentation and risk identification during the planning of the external audit.

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function, review the findings of internal audit and adjust the audit approach as is deemed appropriate. This normally takes a number of forms:

- discussion of the work plan for internal audit
- specific reliance is placed in certain areas. As we expect our approach to be largely or fully substantive (see above), we expect this aspect of reliance to be limited
- where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.
- review of any fraud investigations to determine their potential effect on our work

7. Timetable

		2009	2010											
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Management	Preliminary planning meetings.		■	■	■									
	Development of audit plan				■									
	Use of resources work for indicative scores					■	■							
	Submission of report on indicative use of resources work						■							
	Interim audit					■	■							
	Feedback on outcome of interim procedures							■						
	Draft statement of accounts submitted to audit committee								■					
	Final use of resources work									■				
	Audit fieldwork/audit issues meetings									■	■	■		
	Clearance meeting with finance team											■		
	Preparation of our report on the 2009/10 audit											■		
	Accounts signed											■		
	Audit plan				■									
	Report on the audit of the 2009/10 accounts											■		
	Feedback on the outcome of interim procedures and indicative Use of Resources work								■					

8. Looking forward – the 2010 Use of Resources Assessment

Introduction

The Audit Commission has recently issued its guidance to auditors on the approach to the use of resources assessment work in 2010. Whilst this work will formally be carried out under our 2010/11 audit plan, and not this plan, we have included information here as we anticipate that much of the audit work will take place during the current financial year.

As in 2009, we are required in 2010 to assess the Council’s use of its resources in respect its arrangements for each of the following three themes:

- managing finances - focusing on sound and strategic financial management;
- governing the business - focusing on strategic commissioning and good governance; and
- managing resources - focusing on the effective management of natural resources, assets and people

We reach judgements on these themes by considering specified key lines of enquiry (KLOE) within the three themes. Each KLOE will again be scored on a scale of one to four, with four being the best and one representing areas within the assessment category where an authority did not meet the minimum expected standard. We calculate theme scores using rules set out by the Audit Commission which normally involve calculating the average score for KLOEs within a theme. The Audit Commission will calculate an overall use of resources score.

8. Looking forward – the 2010 Use of Resources Assessment (continued)

Scores from 2008/09

In 2008/09 we reported the following scores for the Council:

Overall area	KLOE	Final KLOE score	Final Theme score
Managing finances	1.1 Planning for financial health	3	**3**
	1.2 Understanding costs and achieving efficiencies	2	
	1.3 Financial reporting	3	
Governing the business	2.1 Commissioning and procurement	2	**2**
	2.2 Use of information	2	
	2.3 Good governance	2	
	2.4 Risk management and control	2	
Managing resources	3.1 Natural resources	2	**2**
	3.2 Strategic asset management	3	

8. Looking forward – the 2010 Use of Resources Assessment (continued)

Changes made to the methodology for 2010

The Audit Commission expects that auditors' work on the 2010 use of resources assessment will be proportionate and build on existing evidence. The use of resources framework, including the key lines of enquiry (KLOE), has not changed. However, the Audit Commission expects auditors to take a risk-based approach that builds on the baseline established in 2009, against which auditors will assess progress.

The Audit Commission's use of resources framework for 2010 sets out the assessment strategy in three sets of circumstances which we deal with, in turn, below.

Category	KLOEs	Approach for 2010
Assessed in 2009 and specified for assessment again in 2010	1.1, 1.2, 1.3, 2.2. 2.3, 2.4, 3.2	Auditors have been asked to address two questions: • what has changed in 2010? and • what difference have those changes made in practice? Where KLOE scores were level 3 or level 4 in year 1, auditors have been asked to undertake only sufficient work to satisfy themselves that there has not been any deterioration in performance, and that the arrangements are still operating effectively. This should be a light touch exercise to refresh existing evidence.
Assessed in 2009 but not specified for assessment again in 2010	3.1	The score for this KLOE, which deals with the Council's use of natural resources, will be carried forward to 2010 without reassessment.
	3.3	KLOE 3.3, which deals with workforce management, will be subject to full assessment in 2010.

8. Looking forward – the 2010 Use of Resources Assessment (continued)

The timetable for the work has been brought forward. We are asked to submit indicative scores to the Audit Commission by 21 April 2010, with area challenge sessions organised in the period 10-21 May 2010. The final submission deadline is 30 July 2010, with the national quality assurance process during August 2010.

We have already commenced our work in this area, agreeing a timetable with the Council for submission of self-assessments and evidence of KLOE for our assessment prior to the submission of indicative scores. We have also met to discuss the assessment of KLOE 3.3 for the first time. Finally, we have agreed in principal that the Council's self assessments should match the lighter touch approach exacted by this year's assessment, focusing more on those areas scored at level 2 in the prior year, and simply updating processes and outcomes for those areas scoring level 3 in the prior year.

9. Responsibility statement

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 this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the “Briefing on audit matters” included in Appendix 2 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members of Hillingdon 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.

Deloitte LLP
Chartered Accountants

St Albans

February 2010

Appendix 1: Analysis of professional fees

We summarise below our proposed audit fees as discussed with management, set out by audit element and including details of any scope changes:

£	Accounts	Use of Resources	Whole of Government Accounts	Main Accounts Sub Total	Pension Scheme	Total
	£’000	£’000	£’000	£’000	£’000	£’000
2009/10 base audit fee	302	66	5.5	373.5	40	413.5
2008/09 base audit fee	302	66	5.5	373.5	40	413.5

Note 1 – In addition to the fees for the audit of Hillingdon Council under the Code of Audit Practice, we also carry out work in relation to the certification of grant claims on behalf of the Audit Commission. Our fees are billed on the basis of time spent by different grades of staff using scale fees advised by the Audit Commission. The level of fees charged in a given year is dependent on the grant schemes falling within the audit requirement, the scope of procedures agreed between the Audit Commission and the grant paying body and the quality of working papers provided to us and timeliness with which audit queries are resolved. Our actual fees for 2008/09 were £138,000.

Note 2 - The Audit Commission’s has published its work programme and fee scales for 2009/10. The scale fee for the audit excluding the audit of the pension scheme (based on 2008/09 gross expenditure on services) is £354,468. Our total fee estimate (excluding fee for the audit of the pension scheme) is £373,500. This fee was proposed to the Council on 30 April 2009, to be finalised as part of this audit plan. The risks identified within the plan have been considered in the context of the scale fee, and holding the audit fees at the same level as the prior year is considered appropriate.

Note 3 – The 2009/10 audit fee does not include the fees with regards to the work that will be required on the Council’s transition to IFRS. This will be discussed separately with management.

Appendix 1: Analysis of professional fees (continued)

Note 4 - In setting the audit fee we have assumed:

- you will inform us of significant developments impacting on our audit
- there are no additional audit risks to those set out in section 2 of this report.
- Internal Audit meets the appropriate professional standards and undertakes the audits set out in their agreed plan with testing covering the whole of the financial year
- management will provide good quality working papers and records to support the financial statements by the agreed start date for the audit.
- management will provide draft financial statements for the agreed start date of the audit which are complete and of a good standard.
- management will provide the draft pension scheme annual report by the agreed start date for the accounts audit to enable the work on that to be carried out contemporaneously with the audit work on the pension scheme information in the statement of accounts
- management will provide requested information within three working days unless indicated that the request is more complex or time consuming
- management will provide prompt responses to draft reports
- management will provide a detailed commentary on status of recommendations together with supporting documentation
- a self assessment will be prepared for the use of resources assessment, including compilation of supporting documentation.

Where these requirements are not met or our assumptions change, we may be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2: Briefing on audit matters

This appendix is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte audit methodology.

Responsibilities of the auditor and Hillingdon Council and scope of our audit

We have been appointed as Hillingdon 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 the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. 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. We have considered how the Council is fulfilling these responsibilities.

Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's Statement of Accounts;
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
-

We are also responsible for the certification of grants.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements, but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standard Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful".

Appendix 2: Briefing on audit matters (continued)

Materiality (continued)

We determine planning materiality based on professional judgement in the context of our knowledge of the client, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- Determine the nature, timing and extent of audit procedures; and
- Evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK and Ireland) we will communicate to the Audit Committee all uncorrected misstatements (including deficiency disclosures) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of ‘clearly trivial’. The Audit Engagement Partner, management and the Governance Committee will agree an appropriate limit for ‘clearly trivial’. In our report to the Audit Committee we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Appendix 2: Briefing on audit matters (continued)

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide value for the Council whilst maximising the quality of our work.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D&I"). The controls that are determined to be relevant to the audit will include those:

- Where we plan to obtain assurance through the testing of operating effectiveness:
- Relating to identified risks (including the risk of fraud in revenue recognition):
- Where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone:
- To enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Appendix 2: Briefing on audit matters (continued)

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters.

Disclosure	Commentary
210	Terms of audit engagements
240	The auditor’s responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720 (revised)	Section A - Other information in documents containing audited financial statements Section B – The auditor’s statutory reporting responsibility in relation to directors’ reports

Appendix 2: Briefing on audit matters (continued)

Independence policies and procedures

Safeguards and procedures	
	• Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit. • Review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner in specified circumstances, which goes beyond auditing standards, and ensures the objectivity of our judgement is maintained. • We report annually to the Audit Committee our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable. • There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment. • Periodic rotation takes place of the audit engagement partner, the independent review partner and key audit partners in accordance with our policies and professional and regulatory requirements. • In accordance with the Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation. • In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies. The AIU and QAD do not publish individual inspection reports and we are not permitted to disclose details of their findings. For our audits of local government, our work is regulated by the Audit Commission.

Appendix 2: Briefing on audit matters (continued)

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies. Amongst other things, these policies:

- state that no Deloitte partner or immediate family member is allowed to hold a financial interest in any of our UK audit clients;
- require that professional staff or any immediate family member may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client;
- state that no person in a position to influence the conduct and outcome of the audit or any immediate family member should enter into business relationships with UK audit clients or their affiliates;
- prohibit any professional employee from obtaining gifts from clients unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Member of Deloitte Touche Tohmatsu