

London Borough of
Hillingdon
Audit results report

Year ended 31 March 2017

Private and Confidential

5 September 2017

Dear Audit Committee Members

We have substantially completed our audit of London Borough of Hillingdon (the Authority) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Appendix 3, before the statutory deadline of 30th September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Maria Grindley
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Audit Committee, other members of the Authority and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, other members of the Authority and management of London Borough of Hillingdon those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, other members of the Authority and management of London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 16 March 2017 Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. We note the following changes:

- We involved our EY Property Valuation Team to a greater extent in assisting the on-site local audit team with some specific support in respect of assets valued using the Depreciated Replacement Cost (DRC) method.

We planned our procedures using a materiality of £13.193m. We reassessed this using the actual year-end figures, which has increased this amount to £14.286m. The thresholds for reporting corrected and uncorrected audit differences have increased from £9.894m to £10.714m and £660k to £714k respectively. The basis of our assessment of materiality has remained consistent with prior years at 2% of Gross Revenue Expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits.
- Related party transactions.

Status of the audit

We have substantially completed our audit of London Borough of Hillingdon's financial statements for the year ended 31st March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Appendix 3. However until work is complete, further amendments may arise:

- completion of EY Property Valuation team review of depreciated replacement cost (DRC) assets;
- completion of starters and leavers review completed by Internal Audit;
- review of final audited statement of accounts;
- completion of subsequent events review; and
- receipt of the signed management representation letter.



Executive Summary

Executive summary (continued)

Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

Objections

We received correspondence from a member of the public but have received no objections to the 2016/17 accounts from members of the public.

Audit differences

There are currently no unadjusted audit differences arising from our audit.

We have also identified a number of audit differences. The majority of these were under our reporting threshold for corrected mis-statements. Further details of all adjustments over the threshold can be found in Section 4 Audit Differences.



Executive Summary

Executive summary (continued)

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of London Borough of Hillingdon's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report. We carried out the work outlined in our Audit Plan which was presented to the Audit Committee on 16th March 2017. In addition to the work outlined in the Audit Plan we also asked our EY Property Valuation Team to assist us with a review of Depreciated Replacement Cost Assets.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we did not identify a VFM significant risk. This did not change following our review of VFM at the conclusion of the audit.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Executive summary (continued)

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have substantially completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have no significant issues to report from the work completed to date.

We have no other matters to report.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Our colleagues in our IT team supported us during the audit. They raised some items for consideration and these are currently with key officers for consideration.

Independence

Please refer to Appendix B for our update on Independence.





02 Areas of Audit Focus





Areas of Audit Focus

Audit issues and approach: Revenue and Expenditure Recognition

Revenue and Expenditure Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

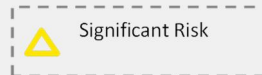
Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.



What did we do?

Our approach focused on:

- ▶ reviewing and testing revenue and expenditure recognition policies, to see if they would of themselves lead to over or understatement of amounts;
- ▶ reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We concentrated on estimates requiring more judgement by management, e.g. IAS 19, Property, Plant and Equipment and accruals;
- ▶ developing a testing strategy to test material revenue and expenditure streams. We looked at all material streams individually and completed sample testing tailored for the individual streams (e.g. where higher risk, more testing performed);
- ▶ reviewing and testing revenue and expenditure cut-off at the period end date to ensure that transactions were entered in the relevant year (e.g. items were not deferred into the following year to improve the financial position; and
- ▶ reviewing and testing a selection of capital additions to ensure that these were correctly capitalised.



Areas of Audit Focus

Audit issues and approach: Management Override

Management override

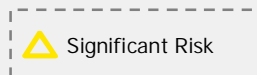
What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.
We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

What is the risk?

Risk of management override
As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
For local government bodies, the potential for the incorrect classification of revenue spend as capital, in the form of additions to property, plant and equipment, is a particular area where there is a risk of management override.



What did we do?

Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale. We did not identify any significant unusual transactions.

We reviewed accounting estimates for evidence of management bias. We undertook audit procedures on accruals, provisions and prepayments and did not identify any evidence of management override.

We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised.

We performed sample testing on the existence and valuation of prepayments, the completeness and valuation of accruals and completeness of provisions and found no indication of management bias.

We reviewed the postings in the Movement in Reserves Statement (MIRS) to ensure that all postings to and from the General Fund and Housing Revenue Accounts were correctly accounted for.



Areas of Audit Focus

Audit issues and approach: SERCOP Re-Statement

SERCOP Re-Statement

What are our conclusions?

From the work completed we found that:

- the disclosures were in line with the CIPFA Code; and
- the restated comparative figures agreed to the London Borough of Hillingdon segmental analysis and supporting working papers with no issues noted.



Significant Risk

What is the risk?

Financial statement presentation
Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year, changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS). They also include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the organisation operates. We expect this to show the Group, PCC and CC segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

What did we do?

We reviewed the draft expenditure and funding analysis, restated CIES, restated MiRS and associated notes.
We have nothing to report from this work.



Areas of Audit Focus

Audit issues and approach: Reliance on experts

Reliance on experts

Reliance on experts highlighted in the Audit Plan

We identified two major areas in our Audit Plan where we place reliance on experts: Pensions Valuation and Property Valuation. In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We have also considered the work performed by the specialist in light of our knowledge of the London Borough of Hillingdon's environment and processes and our assessment of audit risk in the particular area. As part of this work we have performed the following procedures:

- ▶ Analysed source data and made inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assessed the reasonableness of the assumptions and methods used;
- ▶ Considered the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assessed whether the substance of the specialist's findings are properly reflected in the financial statements.

We set out our findings in relation to the two specialists we have relied on below:

Pension disclosures

We have assessed and are satisfied with the competency and objectivity of the London Borough of Hillingdon actuaries: Hymans Robertson and Barnett Waddingham. EY Pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.

Barnett Waddingham:

We have noted that PwC as part of their central review have reported that the discount rate applied by Barnett Waddingham falls outside the top end of their expected range. Our EY Pensions team agree with this conclusion. In respect of Barnett Waddingham EY Pensions concluded that the methodologies used to derive the discount rate and RPI inflation assumptions are not robust as they do not take adequate account of the duration of the schemes liabilities. In future years this could lead to unacceptable assumptions. Given the size of the Barnett Waddingham element of the Pension Liability this is not considered to be a significant consideration for London Borough of Hillingdon. It should also be noted that the Barnett Waddingham issues noted are a national issue and not just specific to London Borough of Hillingdon.

Hymans Robertson:

PwC note that the discount rate and RPI inflation assumptions are determined using a cash flow matching approach to derive 3 separate rates (short, medium and long) with a duration of approximately 15, 20, and 25 years respectively. The use of the nearest duration rather than the actual duration of a particular employer makes the methodology slightly less robust. Our EY Pensions team agree with the reservations on the actuary's methodology used to derive the discount rates but note that overall other assumptions appear reasonable.



Areas of Audit Focus

Reliance on experts

Reliance on experts highlighted in the Audit Plan

Property Valuations

We have assessed and are satisfied with the objectivity of the London Borough of Hillingdon valuers: Wilkes Head and Eve (WHE) and Jones Laing LaSalle (JLL).

We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the external valuers in relation to the property, plant and equipment, focusing in particular on specialist assets which are valued on a depreciated replacement costs (DRC) basis valued by WHE. This is because DRC valuations are the most subjective of all of the valuation methodologies.

Our EY Property Valuations team is currently concluding their work in this area and we will provide a verbal update to the Audit Committee.



03 Audit Report



Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON

Opinion on the Authority's financial statements

We have audited the financial statements of London Borough of Hillingdon for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- London Borough of Hillingdon Movement in Reserves Statement,
- London Borough of Hillingdon Comprehensive Income and Expenditure Statement,
- London Borough of Hillingdon Balance Sheet,
- London Borough of Hillingdon Cash Flow Statement, and
- Related notes 1 to 50,
- London Borough of Hillingdon Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of London Borough of Hillingdon, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Hillingdon and the London Borough of Hillingdon's members as a body, for our audit work, for this report, or for the opinions we have formed.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of Responsibilities set out on page 10, the Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Hillingdon as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Conclusion on London Borough of Hillingdon's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The London Borough of Hillingdon is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the London Borough of Hillingdon has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the London Borough of Hillingdon has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the London Borough of Hillingdon's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the London Borough of Hillingdon had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Hillingdon put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Hillingdon had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, London Borough of Hillingdon put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Pension Fund financial statements

On 25th September 2017 we issued our opinion on the Pension Fund financial statements for the year ended 31 March 2017 included within the Statement of Accounts.

Certificate

We certify that we have completed the audit of the accounts of London Borough of Hillingdon in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

*Maria Grindley (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
27th September 2017*

The following foot note should be added to the audit report when it is published or distributed electronically:
The maintenance and integrity of the London Borough of Hillingdon web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.



04

Audit Differences



Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have included all known amounts greater than £10.714m relating to London Borough of Hillingdon in our summary of misstatements table below. This is the threshold over which it was determined that we would report corrected mis-statements. Further information on how these thresholds have been determined can be found in the Executive Summary.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

- The Narrative Report incorrectly stated that the net worth of the London Borough of Hillingdon in the prior year was £883.2m. The correct figure should have been £833.2m. This is a disclosure adjustment only and has no impact on the primary statements or the bottom line.

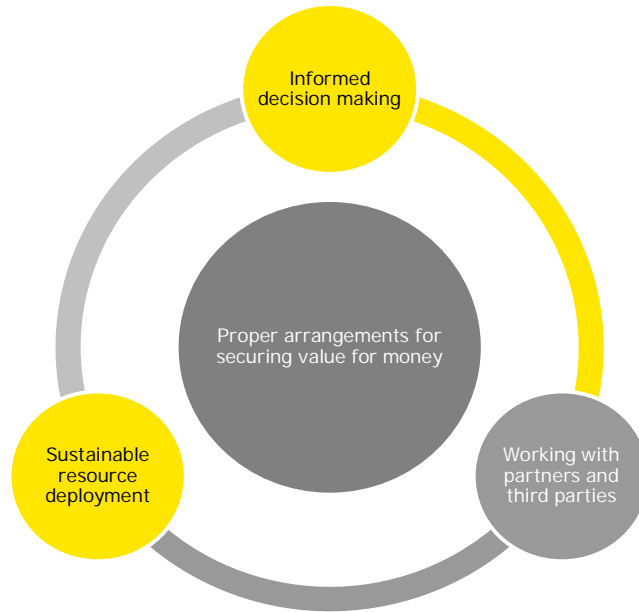
There are currently no uncorrected misstatements.



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We did not identify any significant risks around these criteria

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We did not identify any significant risks in our risk assessment.

Other matters to bring to your attention

We noted the following issues as part of our value for money conclusion assessment

London Borough of Hillingdon continues to perform well given the financial challenges they continue to face from austerity. The successful delivery of the Council’s Business Improvement Delivery Transformation Programme has enabled London Borough of Hillingdon to manage to continue to deliver for local residents whilst delivering the financial savings necessary year on year. Usable Reserves have remained stable year on year at approximately £180m. Investments and Cash Assets also account for an additional £100m as at end of March 2017. These reserves and balances give the Council a good degree of certainty and security in uncertain times.

The Council has continued its use of internal borrowing where possible to continue to invest in capital initiatives. The borrowing position in year was also significantly improved with a reduction of approximately £48m or 15% of the long term borrowing value having been repaid in year. Furthermore no new debt was entered into in 2016/17.

The next few years will undoubtedly bring further challenges including, but not limited to, a further reduction in core Government grants such as the Revenue Support Grant and New Homes Bonus as well as further continued pressures on social care provision. Other challenges and uncertainty include the proposed retention of NDR which was announced by the then Chancellor at the time George Osborne. Recent performance has highlighted that the Council continues to respond well to the challenges it faces and will need to apply such an aptitude in the coming years as well. The Corporate Risk Register details those risks with the Risk Register being used effectively to manage the risk environment in which the Council operates.



06

Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit Committee.



Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the London Borough of Hillingdon's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have nothing significant to report.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Our colleagues in IT assisted us with some work and raised some findings. These are currently with senior officers for consideration.

A close-up photograph of a person's hand sorting through a filing cabinet. The hand is reaching into a drawer filled with numerous manila-colored folders, each containing stacks of papers. The background shows the metal shelves of the cabinet.




08 Appendices



Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan presented to the 16 March 2017 Audit Committee.
Significant findings from the audit	<ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • Findings and issues around the opening balance on initial audits (delete if not an initial audit) 	Audit Results Report to be presented to the 27 September 2017 Audit Committee.
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about London Borough of Hillingdon's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	Audit Results Report to be presented to the 27 September 2017 Audit Committee.



Appendix A



Our Reporting to you



When and where

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements. 	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	We have no matters to report.
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.



Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report to be presented to the 27 September 2017 Audit Committee.
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	Audit Plan presented to the 16 March 2017 Audit Committee; and Audit Results Report to be presented to the 27 September 2017 Audit Committee.
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	Audit Plan presented to the 16 March 2017 Audit Committee; and Audit Results Report to be presented to the 27 September 2017 Audit Committee.
Certification work	Summary of certification work	Grant Certification Report to be presented to the December 2017 Audit Committee.



Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 16 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 27 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements in 2016/17.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
LBH Audit Fee - code work	£157,268	£157,268	£157,268	£157,268
Additional Fee*	£TBC	£0	£0	£0
Total Audit fee	£TBC	£157,268	£157,268	£157,268




Additional Fee* We completed some additional work in respect correspondence from a member of the public. As per the Code this work is billed as additional. We are considering the final engagement fee and will discuss this with key officers before billing. In line with the requirements of the Public Sector Audit Appointments Ltd (PSAA) we will need to seek PSAA's approval before confirming any additional fee.



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
EY Property Valuations review of Depreciated Replacement Cost (DRC) Assets	EY Property Valuations is reviewing key assumptions and a small sample of DRC assets. They have requested some additional supporting information in respect of the assets being tested and will conclude when all of the required information has been received.	EY and management
Starters and Levers Review	EY to review starters and leavers testing undertaken by Internal Audit (completed by Mazars).	EY
Final checks of final statement of accounts	EY local team to check through the final set of financial statements for casting and consistency. Will also check that all agreed amendments have been correctly actioned.	EY and management
Management representation letter	Receipt of signed management representation letter	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management





Appendix D

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on London Borough of Hillingdon 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. <p>• Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Remeasure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix D

<p><i>IFRS 15 Revenue from Contracts with Customers</i></p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none">• Leases;• Financial instruments;• Insurance contracts; and• for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none">• There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none">• Disaggregate revenue into appropriate categories• Identify relevant performance obligations and allocate income to each• Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>



Appendix D

Accounting and regulatory update (continued)

Progress report on implementation of new standards and regulations

In previous reports to the Audit Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<ul style="list-style-type: none"> The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. 	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council will need to take a number of steps as outlined below:</p> <ul style="list-style-type: none"> Critically review and amend the closedown process to achieve draft accounts production by 31st May for 2017/18; Brought forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; Provided training to departmental finance staff regarding the requirements and implications of earlier closedown; Re-ordered tasks from year-end to monthly/quarterly timing, reducing year-end pressure; Established and agreed working materiality amounts with auditor <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> Issued a thought piece on early closedown As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we will:</p> <ul style="list-style-type: none"> Have regular discussions through the year on the Council's proposals to bring forward the closedown timetable and agree on areas where early work can be completed.
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Appendix E

Management representation letter

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

[To be prepared on the entity's letterhead]

27th September 2017

Ernst & Young

Apex Plaza

Forbury Road
Reading
RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Hillingdon ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of the London Borough of Hillingdon as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.



Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.



Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

- Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committees held through the period to the most recent meeting on the following date: 27th September 2017.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.



Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 42 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement 2016/17.
2. We confirm that the content contained within the other information is consistent with the financial statements.



Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

H. SERCOP Re-statement

Comparative information – comparative financial statements

In connection with your audit of the comparative financial statements for the year ended 31st March 2107, we represent, to the best of our knowledge and belief, the following:

1. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.
2. There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the financial statements for the year ended 31st March 2017 are solely the result of reclassifications for comparative purposes.

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.



Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
 - (1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.



Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment and the Pension Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates

Property, Plant and Equipment and Pension Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the property, plant and equipment and pensions estimates appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

N. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Paul Whaymand (Corporate Director of Finance)

Scott Seaman-Digby (Vice-Chairman and Acting Chair of the Audit Committee)

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