

**London Borough of  
Hillingdon & Pension Fund**

Annual Audit Letter for the year  
ended 31 March 2019

September 2019

**EY**

Building a better  
working world

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Focused on  
your future



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

This 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 April 2018)' issued by PSAA set 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



# 01 Executive Summary

## Executive Summary

We are required to issue an annual audit letter to London Borough of Hillingdon (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's and Pension Fund's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2019 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	We had no matters to report.
<b>Pension Fund Annual Report</b>	The Council has yet to prepare the Pension Fund Annual Report as this has a later deadline for completion of 1 December 2019. We will complete the review of the Annual Report and report back on our findings at a later Audit Committee meeting.

## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued our Audit Results Report on 15 July 2019 and discussed it at the Audit Committee meeting on 22 July 2019.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	<p>We have not as yet issued our audit completion certificate.</p> <p>We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Hillingdon Pension Fund. The Local Government Pension Scheme Regulations require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Council has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.</p> <p>Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts 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.</p>

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We would like to take this opportunity to thank the Council and Pension Fund's staff for their assistance during the course of our work.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP



## 02 Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 22 July 2019 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 6 February 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2018/19 financial statements, including the pension fund; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



**03**

## **Financial Statement Audit**

# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 2 August 2019. Our detailed findings were reported to the 22 July 2019 Audit Committee.

The key issues identified as part of our audit were as follows:

Council issues	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Audit Committee.
Risk of fraud in revenue and expenditure recognition - incorrect classification of revenue expenditure as capital	We did not identify any matters to report to the Audit Committee.
Valuation of Property, Plant and Equipment (PPE)	In respect of the Council's £1.8bn valuation of PPE, we identified a judgemental difference of £9m. We concluded that this difference did not affect the material accuracy of the Council's accounts.
Pension liability	The Council's £600m net pension liability appropriately reflects the impact of national issues arising after the 31 March.
Implementation of new accounting standards	As a result of the audit the Council reclassified the disclosure of £14m of pooled investments to meet the requirements of the new accounting standard IFRS 9.
Dedicated schools grant (DSG)	The Council carries a negative DSG reserve of £8.5m. As it is part of a positive £2.6m School Balances reserve the Council's disclosure is in line with the financial reporting requirements.

Pension fund issues	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Audit Committee.
Misstatement due to fraud and error - Posting of Investment Journals	
Risk of incorrect valuation of investments	
Move to the London Collective Investment Vehicle	
Implementation of new accounting standards	

## Financial Statement Audit (cont'd)

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £12.373 m (2017/18: £12.836.m), which is 1.8% of Gross Revenue Expenditure reported in the accounts.</p> <p>We consider Gross Revenue Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We determined planning materiality to be £10.596 m (2017/18: £10.123 m), which is 1% of Net Assets reported in the Pension Fund accounts.</p> <p>For the Pension Fund we consider Net Assets to be the principal consideration for stakeholders.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.617m (2017/18: £0.642 m) for the Council financial statements and all audit differences in excess of £0.530 m (2017/18: £0.590 m)</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

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

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

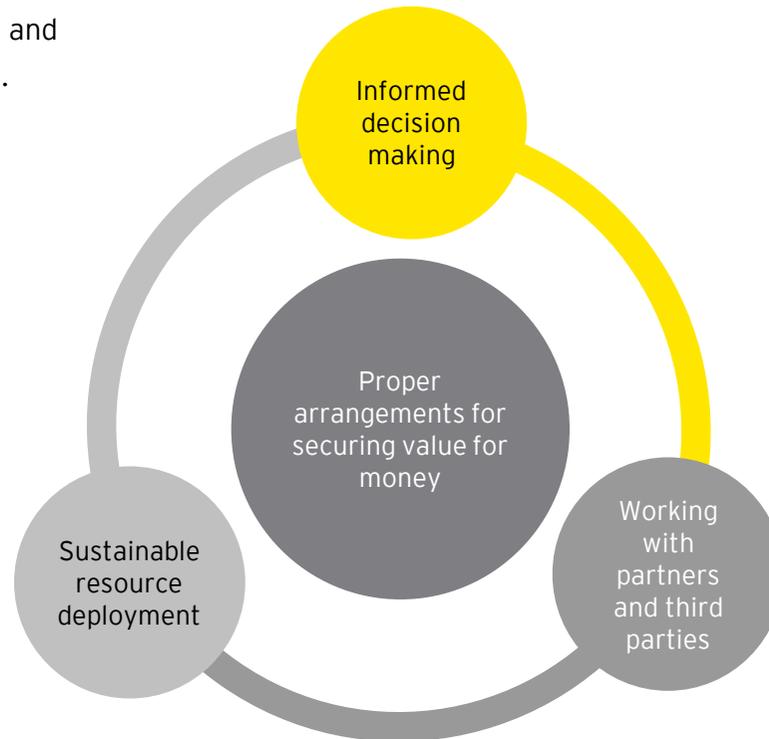


# 04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its 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.



We identified a significant risk around the Governance Arrangements for the new subsidiary Hillingdon First. We found that these arrangements were appropriate and we therefore had no matters to report about the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.



## Value for Money Risks

We are only required to determine whether there are any risks 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.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
The Council has established Hillingdon First and needs to ensure that governance and accountability arrangements are appropriate and effective.	Informed decision making	<p>We have:</p> <ul style="list-style-type: none"> <li>▶ Assessed the adequacy of the Council’s governance arrangements for Hillingdon First.</li> <li>▶ Reviewed the business case, cash flow forecasts and accounting treatment of transactions between the company and the Council.</li> </ul> <p>We have not noted any issues in relation to the Business Case or the Governance Arrangements of Hillingdon First. We note that activity in 2018/19 has been limited and as such as the activities of the Council in respect of Hillingdon First are not material and as such Hillingdon First has not been consolidated within the financial statements.</p>



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## Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We completed this work and had no issues to report.

### Annual Governance Statement (AGS)

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern.

### Report in the Public Interest & written recommendations

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public. We also need to consider whether to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. We had no matters that required us to report in the public interest or make written recommendations.

### Objections

We did not receive any formal objections to the 2018/19 financial statements from members of the public. However, we did receive correspondence which required senior team members to respond appropriately.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

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 regulatory and professional requirements.

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit. We have adopted a fully substantive audit approach and have therefore not tested the operation of controls. Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



06

Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease 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 and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 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 identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
<b>IASB Conceptual Framework</b>	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces;</p> <ul style="list-style-type: none"> <li>- new definitions of assets, liabilities, income and expenses</li> <li>- updates for the inclusion of the recognition process and criteria and new provisions on derecognition</li> <li>- enhanced guidance on accounting measurement bases</li> <li>- enhanced objectives for financial reporting and the qualitative aspects of financial information.</li> </ul> <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07

Audit Fees

## Audit Fees

In our Annual Results Report presented to the Audit Committee on 22 July 2019 we highlighted that we had carried out additional work to complete the audit and would seek to agree an additional fee with the Authority's Section 151 officer. In the table below we summarise the fees that we have agreed and that are now subject to approval by PSAA.

	Final fee 2018/19	Final Fee 2017/18
	£	£
Scale fee - LB Hillingdon	121,096	158,712
Additional audit work: (Note 1)		
- PPE valuations significant risk	6,995	-
- IFRS 9, classification of pooled investments	1,275	-
Correspondence from the public	1,758	1,444
<b>Total audit fee - code work</b>	<b>131,124</b>	<b>160,156</b>
Scale fee - Hillingdon Pension Fund	16,170	21,666
Additional work - Level 3 investments (Note 1)	1,275	-
<b>Total audit fee - Code work</b>	<b>17,445</b>	<b>21,666</b>
Other non-audit services		
- Housing benefits	27,600 (Planned)	24,445
- Teachers pensions (Note 2)	Tbc	10,000
- Pooled capital receipts (Note 2)	Tbc	6,500

All fees exclude VAT

Note 1: We have performed additional work as a result of the risks we identified. This has resulted in an additional audit fee which we have agreed with the S151 officer. We note that this is also in the process of being agreed with the PSAA.

Note 2: We have yet to agree engagement terms for the reporting accountant work on two of the Authority's 2018/19 grant claims.

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