London Borough of Hillingdon

Audit results report

Year ended 31 March 2020

16 November 2020

16 November 2020

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of London Borough of Hillingdon for 2019/20. We will issue our final report soon after the Audit Committee meeting scheduled for 24 November 2020.

We have substantially completed our audit of London Borough of Hillingdon for the year ended 31 March 2020. However, subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report.

As set out on pages 5 to 7, a number of issues have arisen as a result of Covid-19 which may impact on our audit opinion. We confirm that we expect to issue our audit opinion on the financial statements before the accounts publication date of 30 November 2020. 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 welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 24 November 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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.psaa.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 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. 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 Hywell Ball, 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

Scope update

In our audit planning report presented at the 03 February Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- Disclosures on Going Concern – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Events after the balance sheet date – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may need to be disclosed. The amount of detail required in any disclosure would need to reflect the specific circumstances of the Local Authority.
- Impairment of receivables – We identified impairment of receivables as a new area of focus. The Authority hold material third party receivable balances as at 31 March 2020. There is a risk of increasing amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations. We have reviewed significant judgements made by management.
- New Accounting Standards on Leases (IFRS16) – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes to the scope of our audit as a result of Covid-19

- We revised our risk assessment on the key estimate of Pensions and are using internal specialists to support our work in this area. We also will complete some additional testing of Covid-19 expenditure.

Executive Summary

Scope update

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our planning materiality measure of 2% of gross expenditure on provision of services and performance materiality at 75% of planning materiality:

Materiality	Audit Plan	Final
Planning	£12.973 m	£14.827 m
Performance	£9.730 m	£11.121 m
Reporting	£0.649 m	£0.741 m

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.
The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 35.

Executive Summary

Status of the audit

We have substantially completed our audit of the London Borough of Hillingdon's financial statements for the year 31 March 2020 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 Section 3. However until work is complete, further amendments may arise:

Internal consultation on the going concern assessment, disclosure and any impact on the audit opinion	Review of EY Pensions consideration of assumptions by Hymans Robertson and work on the IAS 19 Liability including updates for assets	Review of final version of statements
Receipt of IAS19 assurance from PF auditor	Final review of audit work	Review of management representations
Final review of Property, Plant and Equipment	Completion of post balance sheet events review	Whole of Government Accounts Review

We do not expect to issue the audit certificate at the same time as the audit opinion because of changes in the Whole of Government Accounts timetable.

Our audit opinion may include two emphasis of matter paragraphs. These are not modifications or qualifications to the audit report. They relate to:

- Property, plant and equipment valuation – We may draw users attention to the valuation uncertainty disclosure in Note 9 of the accounts.
- Going concern and the impact of the Covid-19 pandemic – We may draw users attention to the Authority's going concern disclosure.

The draft audit report is attached at Section 3.

Audit differences

At the date of this report there are no adjusted audit differences which we wish to bring to your attention which are greater than our reporting threshold of £11.121 m for corrected mis-statements.

There are two unadjusted differences: one relating to secondary school sites accounted for as Property, Plant and Equipment in the financial statements. Based on the work of our valuation specialist we have concluded that the value of secondary schools is overstated by approximately £4.151 m in the financial statements. We consider this to be a judgemental difference involving estimation which relate to facts or circumstances that are uncertain or open to interpretation. Management considers this to be a difference in professional opinion between two sets of valuers and therefore that no adjustment should be made. The second unadjusted mis-statement is in respect of pension adjustments in respect of the Goodwin case. No adjustment has been made for the impact of this cases in the 2019/20 financial statements. Our internal specialists have concluded that the potential impact of these on the liability could be £1.004 m. We consider this to be a judgemental difference. The Authority have not adjusted for these amounts on the grounds of materiality. We will seek representations from management on this unadjusted mis-statement in our Letter of Representation.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Management Override: Misstatements due to fraud or error	We have completed our testing and found no indications of management override of controls.
Incorrect capitalisation of revenue expenditure	We have completed our testing, subject to review, and have nothing to report.
Valuation of land and buildings	We have completed our work and have reported an unadjusted audit difference on page 7 and provide further detail in Section 04. We may include an emphasis of matter paragraph in our audit report about the material uncertainty reported by the Authority's valuer. This is not a modification to the audit report but highlighting to the reader an important disclosure. We will provide an update on our final assessment in this respect at the Audit Committee meeting.
Incorrect classification of the Dedicated Schools Grant (DSG)	We have reviewed the Authority's accounting treatment of the DSG deficit and can confirm that it meets the requirements of the Code.

Other area of audit focus	Findings & conclusions
Pension liability	We have agreed the Authority's pension liability disclosures to the actuarial report. However, we are awaiting the IAS19 assurance letter from the auditor of the Hillingdon Pension Fund to enable us to conclude against this area of audit focus. We also used our EY Pensions specialists to support us with a specific review of the assumptions being applied by the Authority's actuary, Hymans Robertson. We note some unadjusted mis-statements on IAS 19 at Section 4.
Going concern	The draft accounts included the Council's initial disclosure on going concern. Officers have used the assessment of the impact of Covid-19 on the Authority's finances, as reported to Cabinet, to draft a new going concern disclosure note. We have scrutinised the financial assessment, cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We have also reviewed the revised going concern disclosure and subject to the EY consultation process. We are consulting internally with our professional practice directorate on the Going Concern disclosure and will also consider this in light of our audit opinion. We will provide an update on our consideration and final conclusion of this matter at the Audit Committee meeting.

Executive Summary

Areas of audit focus

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. 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; and
- You agree with the resolution of the issues; 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 your attention.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.
We have not identified any key control deficiencies as part of the audit process. Please refer to Section 7 for details.

Value for money

We identified one significant risk relating to sustainable resource deployment and in particular the Authority's arrangements to manage the financial challenges outlined in the Medium Term Financial Strategy. We have no matters to report. Please refer to Section 5 for details.

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 not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. However Treasury has extended the reporting timetable for WGA so we may not certify completion of the audit at the same time as issuing the audit opinion.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Significant risk

Management Override: Misstatements due to fraud or error

(Fraud risk)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For the Authority, we have assessed that this risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Authority.
- Management bias in key accounting estimates and judgements.

What judgements are we focused on?

We have considered the specific risk of management override in respect of the Authority's judgements over capitalisation of revenue expenditure (see over).

What did we do?

- Identified fraud risks during the planning stages.
- Asked management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures in relation to journal entries and other adjustments
- Assessed the nature of significantly unusual transactions
- Considered if management bias was present in key accounting estimates and judgments in the financial statements

What are our conclusions?

Our testing is complete. We did not identify any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Authority's normal course of business.

Significant risk

Incorrect capitalisation of revenue expenditure (Fraud Risk)

What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the 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 the manipulation of expenditure recognition.

For London Borough of Hillingdon, we consider this specific risk to be present in:

- Additions to property, plant and equipment and Revenue Expenditure Financed from Capital Under Statute (REFCUS).

We have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Authority's capital programme.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including Consideration of REFCUS.

What did we do?

We sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

What are our conclusions?

We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.

Capital expenditure in relation to Investment is not material, therefore we focused our testing on property, plant and equipment capital additions and also Revenue Expenditure Financed from Capital Under Statute (REFCUS) capital additions.

Our testing of capital additions is complete. We did not identify any instances where expenditure had been inappropriately capitalised.

Significant Risk

Significant risk

Accounting for the Dedicated Schools Grant (DSG)

Significant Risk

What is the risk?

The Authority is forecasting a year end cumulative deficit on DSG of £14-15m. The CIPFA Code has previously not permitted the use of negative reserves.

At the date of our planning report in March 2020 there was uncertainty as to whether the Department for Education would provide funding to councils impacted by this issue. The Department, the NAO and CIPFA have been discussing options for the accounting treatment of the deficit for local authorities and we were expecting them to issue further guidance.

There was a risk that the Authority's accounting treatment of the DSG balance will not be in line with the Code. This would specifically impact on the relevant Balance Sheet and Income and Expenditure assertions specifically Completeness, Existence/Occurrence and Measurement/Valuation.

What judgements are we focused on?

We will review the latest guidance available from the Department for Education and CIPFA on the accounting for DSG and consider the Council's treatment of DSG in the draft 2019/20 financial statements.

What did we do?

- We continued to monitor the DSG balances throughout the year including forecast outturn;
- We regularly discussed the position with senior management and to understand the accounting treatment being proposed in 2019/20 in light of the guidance available to the Authority at the time of production of the financial statements; and
- Considered the latest guidance available from the NAO, CIPFA and the Department for Education to support the closedown of the financial statements.

What are our conclusions?

We note the outturn position on DSG High Needs of a deficit of £15 m as per the draft unaudited financial statements.

We have considered the disclosure in light of the revised guidance. The Authority has correctly accounted for the negative DSG Reserve within Earmarked Reserves in line with the revised CIPFA Code.

In September 2020 we were advised that CIPFA was reviewing the 2019/20 accounting treatment for DSG with a possible new statutory override which would enable councils to transfer the amount of the negative DSG High Needs balance to a new ring-fenced Unusable Reserve. We were also made aware that the proposal to create an Unusable Reserve would be implemented from 2020/21.

It has now been confirmed that the creation of a new unusable reserve will now not occur until 2020/21 and will be established through a statutory override option.

Significant risk

Risk of error in the valuation of land and buildings - Schools (updated post Covid-19)

What is the risk?

The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Authority's accounts, totalling approximately £2.2 billion and are subject to valuation changes, impairment reviews and depreciation charges.

In calculating amounts recorded in the Authority's balance sheet, management are required to make material judgements and apply estimation techniques.

What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- harder to value assets – such as schools which are valued on a depreciated replacement cost basis;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

What did we do?

We confirmed that the Authority's valuers are members of RICS and registered valuers. We reviewed the instructions provided to the valuer against the requirements of the Code and IFRS and found no issues.

For a sample of assets we assessed whether the valuation basis was appropriate and whether the assumptions used were supportable and reperformed the valuers' calculations.

We challenged the information provided by the valuer as the management's expert.

We have considered the impact of assets not revalued in year, and whether this could lead to a material misstatement of the closing asset valuation.

What are our conclusions?

We updated our risk assessment in light of the impact of Covid-19 and the fact that the external valuer had highlighted a 'material uncertainty' in their valuation report. As a result we instructed our internal valuers to support us with our work in this area.

We asked our internal valuation specialists to review a sample of assets across the portfolio including primary schools, and secondary schools In the main. In addition, to reflect the 'material uncertainty' referenced above we also asked them to review the council offices which are valued at market value.

We have considered the impact of assets not revalued in year and the fact that assets valuations occur effective as at 1 April 2019. We have challenged officers on the material correctness of valuations at that date and officers are considering possible indexation and the impact that this could have across the portfolio.

We note some unadjusted mis-statements in respect of asset valuations at Section 4.

Other risk

Risk of error in the valuation of the net pension liability (updated post Covid-19)

What is the risk?

The Code and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hillingdon Pension Fund. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled over £820 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- significant changes in assumptions made by the actuary; and
- the assessments of the actuary undertaken by PWC, as consulting actuary commissioned by the National Audit Office, and the EY actuarial team.

What did we do?

- Liaised with the auditors of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to London Borough of Hillingdon;
- Assessed the work of the Pension Fund actuary Hyman Robertson including the assumptions they have used by relying on the work of PWC and considering any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

We are satisfied that the Authority has correctly reflected the IAS 19 entries provided by the actuaries in the draft financial statements. We are also satisfied that the actuaries are appropriately qualified. This year, as in the previous year, there has been a national issue which resulted in a change to the Authority's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". In addition, there is also another national issue, referred to as the Goodwin case.

We have also asked our internal EY Pension actuarial specialists to support our review of the potential impact of McCloud and Goodwin in 2019/20. The Council did take account of McCloud but not the Goodwin case in the financial statements. Based on our specialists the potential impact on the total liability could be in the following ranges:

McCloud: 0-0.2% increase in IAS 19 liability

Goodwin: 0.2% increase in 19 liability
The IAS 19 liability is £500.8 m, which equates to the following potential increases:
McCloud: £0-£1.002 m
Goodwin: £1.002 m
The cumulative potential impact of these to cases would be a maximum of £2.004.
The Council had made an adjustment of £1.3 for McCloud. The difference is not material. For further consideration of these see Section 4.

Other areas of audit focus

Going Concern

What is the risk?

ISA 570 was revised in September 2019. The revised standard increases the work we are required to perform when assessing whether an entity is a going concern and means UK auditors will follow significantly stronger requirements than those required by current international standards. Whilst the standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, EY have revised current audit procedures, recognising the importance of the forthcoming revisions.

Financial plans for 2020/21 and medium term financial plans may need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the financial statements may not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Pension Fund's year end financial position and performance

What did we do and what management judgements did we focus on?

- Obtained management's going concern assessment and reviewed for any evidence of bias and checked consistency with the accounts;
- Reviewed the financial modelling and forecasts prepared by management. We considered and challenged key assumptions, focusing on the reasonableness of the liquidity forecasts up to a date of 12 months after the expected signing date of the accounts;
- Considered the appropriateness of the going concern disclosure within the financial statements. The updated Going Concern disclosure note is included at Section 1 of the financial statements; and
- Considered the impact on our audit report by undertaking internal EY consultation.

What are our conclusions?

The draft accounts included the Council's initial going concern disclosure. Management have carried out a detailed consideration of the impact of Covid-19 on the finances of the Authority and have prepared an updated accompanying going concern disclosure for the statements.
The Authority's cash flow forecast extends beyond the 12 months from the date of approval of the financial statements and the Authority continues to forecast significant and material levels of short-term and long-term investments, including liquid investments. We provide further details of our assessment on the following slide.
We are satisfied that management have prepared a robust going concern assessment and the resultant going concern disclosure is appropriate. We are consulting with EY's Professional Practice Directorate our view that there is nothing within the Authority's going concern disclosure that is so fundamental to the reader's understanding of the accounts that we need to include an emphasis of matter paragraph in our audit opinion. We will update the Audit Committee of the outcome of the EY internal consultation.

Areas of Audit Focus

Going concern disclosure

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we will need to see evidence of the going concern assessment up to and including around October/November 2021.

Findings and conclusions

The draft accounts included a going concern disclosure with officers carrying out an assessment on a monthly basis and fully participating in the monthly returns to MHCLG to evaluate the impact of the Covid-19 pandemic on the Authority's income, expenditure, balances and reserves to inform reporting to Cabinet. Officers have used these assessments, and working in collaboration with the audit team, drafted a new going concern disclosure note for inclusion in the final version of the statements.

We have reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges. We have also considered the adequacy of management's new disclosure note and its agreement with the financial assessment.

The Authority is forecasting that as at September 2020 it will incur an overspend in 2020/21 of £26m which is solely Covid-19 related. Whilst the Authority continues to review all service areas revenue and capital budgets to identify options for delivering efficiency savings and / or generating income with the aim of setting a balanced budget in 2021/22 and reducing the overspend in 2020/21, The Authority has the following reserves to call on in delivering its services:

General Fund	£34 m	Earmarked	£36 m
Capital grants	£3 m	Capital receipts	£23 m

If required the Authority is prepared to 'un-earmark' certain reserves to meet its Covid-19 related commitments.

We therefore note that the Authority has headroom within the General Fund to absorb the estimated financial impact of the Covid-19 pandemic in the short to medium-term.

In terms of cash and liquid deposits we know that the Council proactively manages its cashflows, maintaining a daily forecast of available funds and ensuring that liquid cash and deposits of at least £10 m are available at all times. This minimum of liquid cash is held in a combination of UK banks and Money Market Funds with additional deposits of £15 m held in Strategic and Long Dated Pooled Funds accessible within 4 working days.

We have now reviewed the new going concern disclosure which officers plan to include at Note 1 of the statements, and are satisfied that it adequately reflects the Authority's assessment and informs the reader of the impact of the pandemic on the Authority's finances. We are completing our final review procedures and subject to EY internal consultation process we will not be including an emphasis of matter paragraph in the audit opinion.

03 Audit Report

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of the London Borough of Hillingdon for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Movement in Reserves Statement,
- Authority Comprehensive Income and Expenditure Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement and the related notes 1 to [x].
- Collection Fund and the related notes 1 to [x]

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Hillingdon as at 31 March 2020 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 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Disclosure in Relation to the Effects of Covid-19 and Property, Plant and Equipment

We draw attention to Note 1 of the financial statements, which describes the economic consequences the Authority is facing as a result of Covid-19 which is impacting the financial and operational position and performance during 2020/21 and beyond.

We also draw attention to Note 30 'Sources of Estimation Uncertainty' and Note 9 Property, Plant and Equipment of the financial statements, which describe the valuation uncertainty the Authority is facing as a result of Covid-19 in relation to property valuations.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

• the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

• the Corporate Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Corporate Director of Finance is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, the 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 2020.

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.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of the Responsibilities, 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Corporate Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 April 2020, 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 2020.

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.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority 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.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in the certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of the 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London

Xx November 2020

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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

Known misstatements

We have identified no audit mis-statements greater than our threshold of £11.121 m. As our work is ongoing in a number of areas it is possible that further amendments may arise.

We know, for example, that the IAS Pension asset figures are being updated as at the date of this report. We will provide an update at the Audit Committee meeting.

We have identified a number of other adjustments to management which have been corrected.

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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 Unadjusted differences

Judgemental misstatements

1) <u>IAS 19 Liability:</u>

We assessed the Authority’s treatment in the 2019/20 financial statements of the McCloud and Goodwin cases. We reviewed the actuarial reports and held discussions with officers that confirmed that a subsequent adjustment had been made for McCloud. A revised report was obtained and updated for the McCloud impact only. This concluded that the potential impact of McCloud in 19/20 was £1.3 m. No adjustment was made for Goodwin. We engaged our internal actuarial specialists (EY Pensions) to support our conclusions. EY Pensions specialists concluded that the potential impact on the IAS liability (£500.747 m in 19/20) could be:

- McCloud: 0-0.2% range increase in liability with the likely impact somewhere closer to 0.
- Goodwin: 0.2% increase in liability

Taking these two cases together therefore we assumed a potential impact of 0.2% on the liability. This would equate to a potential increase in the liability of £2.004 m. The Council’s adjustment for McCloud was £1.3 m and therefore we note a potential under-statement of approximately £0.7 m in total.

<u>2) Property, plant and equipment (PPE):</u>

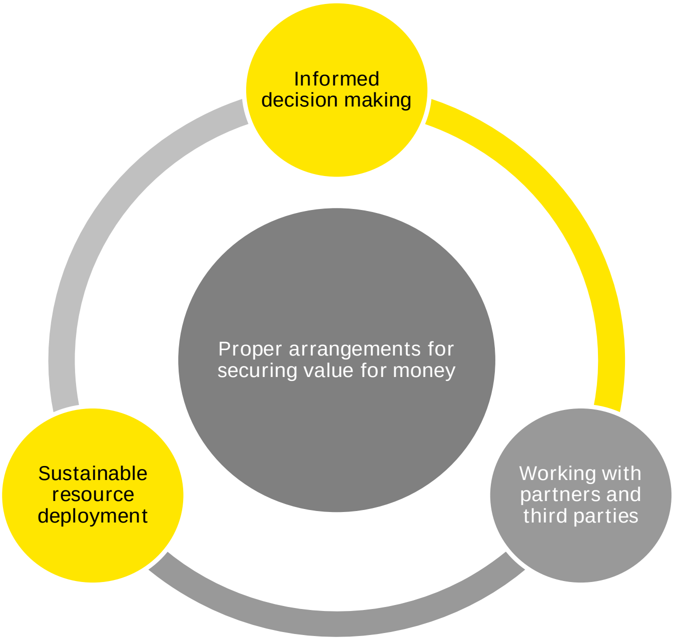
We assessed the Authority’s treatment in the 2019/20 financial statements of the valuation of property, plant and equipment (PPE). We identified a significant risk on schools valuations. In addition, as a result of the ‘material uncertainty’ clause inserted by external valuers in their year end valuation reports for 2019/20 we also reviewed one additional asset valued using Existing Use Value (EUV) methodology. In our sample of assets we specifically noted differences in two assets of £4.151 m where the assets were overstated. These assets were secondary schools. We note these are the only two secondary schools on the Authority’s balance sheet and therefore we have isolated this amount and treated this as a judgemental difference with a difference of opinion between valuers in the treatment of these assets.

In terms of general commentary we would note the following in respect of the assumptions applied by the external valuer:

1) Modern Equivalent Asset (MEA) Approach: We note that the external valuer values the MEA using the actual site sizes of the assets. We have seen a number of valuers adopting emerging guidance and using pupil numbers as a basis for assessing MEA values.
2) External works: We note that the valuers make no allowance for external works in their valuations. Our internal valuation specialists would typically expect to see an allowance of between 3-5% being allowed for the Gross Replacement Cost.
3) Obsolescence: The external valuer makes no allowance for obsolescence in the first 10 years of the life of the building. Our valuers believe that this overstates the value of the buildings as typically we would expect the assets to experience some use of its economic life in that period.
4) Land Values: Our valuation specialists assessed the land values being adopted by the external valuer and concluded that in their opinion the residential land values being applied understated the values and that the rates assumed for the playing fields were overstated.

05 Value for Money

Value for Money



Background

We are required to consider whether the Authority has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:
“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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 will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities’ response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified one significant risk around these arrangements. The tables on the following page presents our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.
We have not identified any new significant risks around these arrangements.
We have no matters to include in the auditor’s report about your arrangements to secure economy, efficiency and effectiveness in your 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.

We present below the findings of our work in response to the risk area in our audit plan.

What is the significant value for money risk?

Sustainable resource deployment

In the February 2020 Audit Plan we reported that like other local government bodies, the Authority continued to have a challenging financial outlook. To balance the budget over the medium term i.e. the next three years it was planning to deliver cumulative agreed savings of approximately £42 million. The budget for the next 2 financial years also included a drawdown of general balances of £9.3 m. This will enable the majority of the savings to be profiled into later years. Approximately half of the £42 m has been identified to date and the remainder will be identified through a renewed BID savings programme.

In addition, the Authority is overspending against its Dedicated Schools Grant (DSG) budget.

We consider all of the above to be relevant to the sustainable resource deployment VFM criterion and as a result it constituted a significant risk.

Since the March 2020 Audit Plan, we have clarified with the NAO that the overspend relating to the DSG budget should not be a consideration for our VFM conclusion work around sustainable resource deployment because the revised DfE regulations make it clear that local authorities are not required to fund the DSG deficit with general fund monies. However, there remains an expectation that authorities will put in place arrangements to manage DSG related spending. We have noted the latest position in respect of the DSG and have discussed the matter with senior officers. The trajectory of the deficit is one of significant increase with the deficit on the DSG increasing from £8.4 m at the end of 2018/19 to £15 m at the end of 2019/20. Forward projections show similar pressures on the DSG with forward projections reaching a cumulative deficit of approximately £24m in 2020/21. This deficit is specifically in respect of 'High Needs' school block pressures/looked after children. We will continue to liaise with senior officers to understand the latest position and significant variations to the above.

In summary, our work on financial resilience including Going Concern has not identified a Going Risk. The Council has demonstrated that there is sufficient reserves and balances to support the Council in the medium term. As noted above however the next few years present a challenge and a key area of focus for us will be how the Council responds to that challenge.

06 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 2019/20 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 2019/20 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 (WGA) 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. The deadline for certification and return of the work on the WGA is 04 December 2020.

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 Authority’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 we need to bring to the attention of the Audit Committee in respect of these Other Matters which we have not already covered elsewhere within this report.

07 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.

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.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention/details of issues noted.

08 Independence

08 - Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020.
We complied with the APB Ethical Standards. 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 24 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.
There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Appendix A

Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020. We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Audit Plan and subsequent reporting to the Audit Committee, we have communicated our proposal to increase the scale fee for 2019/20 to £208,000. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals and includes items where we need to determine the final fee to present to the Corporate Director of Finance.

	Final fee 2019/20 (£)	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee – Code work	121,096	121,096	121,096
Changes in work required to address professional and regulatory requirements and scope associated with risk (see narrative above)	86,904		
Additional work:			
• PPE including RICS related material uncertainty	TBC	TBC	6,995
• IFRS 9	-	-	1,275
• Correspondence from the public	-	-	1,758
• VFMC significant risk	TBC	TBC	-
• Going concern assessment and disclosure	TBC	TBC	-
• EY consultation on auditor's report on the statements involving EY professional practice directorate to ensure the auditor's report is appropriate.	TBC	TBC	-
Total audit	TBC	TBC	131,124
Non-audit services:			
Housing Benefits	TBC	28,290	27,600
Capital receipts return	TBC	TBC	7,000
Teachers' Pensions	TBC	12,500	12,000
Total other non-audit services	TBC	TBC	TBC
Total fees	TBC	TBC	TBC

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Standards and General Purposes Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Standards and General Purposes committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

09 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix A

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all assertions	Substantively tested all assertions	No change
Trade payables	Substantively tested all assertions	Substantively tested all assertions	No change
Investments	Substantively tested all assertions	Substantively tested all assertions	No change
Tangible fixed assets	Substantively tested all assertions	Substantively tested all assertions	No change
Cash	Substantively tested all assertions	Substantively tested all assertions	No change
Borrowing	Substantively tested all assertions	Substantively tested all assertions	No change
Capital grants receipts in advance	Substantively tested all assertions	Substantively tested all assertions	No change
Pensions liability	Substantively tested all assertions	Substantively tested all assertions	No change

Appendix B

Summary of communications

Date	Nature	Summary
20 January 2020	Report	The audit planning report, including confirmation of independence, was issued to the audit committee.
03 February 2020	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit committee and senior members of the management team to discuss the audit planning report.
16 April 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Corporate Director of Finance to discuss the impact of the Covid-19 pandemic on the operational and financial management of the Council.
June to October 2020	Meeting	The senior manager on the engagement met with the Chief Accountant to discuss the preparation of the financial statements
01 October 2020	Meeting	The senior manager on the engagement met with the Chief Accountant and other senior members of the finance team to discuss the outcome of the work on property valuations and to discuss the next steps to follow up question with the external valuer
13 October 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Corporate Director of Finance and the Deputy Director of Finance to discuss the status of the audit and also matters identified as part of the audit.
11 November 2020	Report	The audit results report, including confirmation of independence, was issued to the audit committee.
24 November 2020	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit committee and senior members of the management team to discuss the audit results report.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		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
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented at the 3 February 2020 Audit Committee meeting
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented at the 3 February 2020 Audit Committee meeting
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the audit committee include: • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant	Audit planning report presented at the 3 February 2020 Audit Committee meeting; and Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • 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	Audit results report presented at the 24 November 2020 Audit Committee meeting
Misstatements	• 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 • Material misstatements corrected by management	Audit results report presented at the 24 November 2020 Audit Committee meeting
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report presented at the 24 November 2020 Audit Committee meeting
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit results report presented at the 24 November 2020 Audit Committee meeting
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit planning report presented at the 3 February 2020 Audit Committee meeting; and Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report presented at the 24 November 2020 Audit Committee meeting
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report presented at the 24 November 2020 Audit Committee meeting
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report presented at the 24 November 2020 Audit Committee meeting
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report presented at the 24 November 2020 Audit Committee meeting
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report presented at the 24 November 2020 Audit Committee meeting
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report presented at the 3 February 2020 Audit Committee meeting; and Audit results report presented at the 24 November 2020 Audit Committee meeting

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]

Ernst & Young
FAO: Suresh Patel
EY LLP
More London Place
London
SE1 2AF

Dear Suresh

This letter of representations is provided in connection with your audit of the council financial statements of London Borough of Hillingdon ("the Council") for the year ended 31 March 2020. 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 council financial statements give a true and fair view of the Council financial position of London Borough of Hillingdon as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.

We understand that the purpose of your audit of our council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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.

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 2019/20 for the Council.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the council financial statements. We believe the Council 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 2019/20 and are free of material misstatements, including omissions. We have approved the council financial statements.
3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council have 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 2019/20 for the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

Management representation letter

Management Rep Letter (cont.)

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
    - involving management, or employees who have significant roles in internal controls, or others; or
    - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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;
    - 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 all material transactions, events and conditions are reflected in the council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting of the Cabinet on 12 November 2020.
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 year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the council 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 council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter

Management Rep Letter (cont.)

D. 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 council 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. No guarantees have been given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the council financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern

1. Accounting policy a) General Principles to the council financial statements discloses all of the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

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, 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 council financial statements.

J. Reserves

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

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the asset valuations and net pension liability valuation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the council 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.

L. Asset Valuation and IAS 19 Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.
2. We confirm that the significant assumptions used in making the asset valuation estimates appropriately reflect our intent and ability to carry out planned uses of assets valued.

Management representation letter

Management Rep Letter (cont.)

3. We confirm that the disclosures made in the council financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the council financial statements due to subsequent events, including due to the COVID-19 pandemic.

M. 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,

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Paul Whaymand – Corporate Director of Finance

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John Chesshire - Chair of the Audit Committee

Appendix E

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. 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
Code of Audit Practice 2020	• The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	• The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. • Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	• The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. • This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	• Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. • Further updates will be provided when possible.
Independence	• The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	• We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. • To date we have not identified any non-audit services which would be prohibited under the new standard.

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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