

London Borough of Hillingdon and Pension Fund

Annual Audit Letter for the year
ended 31 March 2020

January 2021

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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 Annual Audit Letter 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 Hywel 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.



A photograph showing a close-up of a person's hands holding a white tablet computer. The hands are positioned as if the person is interacting with the screen. The tablet is resting on a light-colored wooden surface. In the background, there are some blurred vertical lines, possibly from a window or a partition.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to the London Borough of Hillingdon (the Council) and the Pension Fund following completion of our audit procedures for the year ended 31 March 2020. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's:	
► Financial statements	On 26 November 2020 we issued unqualified opinions. The financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2020 and of its expenditure and income for the year then ended. Within the Pension Fund audit report we included a paragraph to emphasise the material uncertainty reported within the Fund accounts in relation to the impact of Covid-19 on asset valuations.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources
Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.
Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	At the date of this letter we have yet to submit the WGA assurance statement to the NAO due to a national IT issue preventing the Authority from updating its WGA schedule. HM Treasury are working on a fix.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We presented our final Audit Results Reports on to the Audit Committee meeting of 24 November 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We will issue the certificate once HM Treasury resolve the IT issues impacting the WGA assurance statement.
	We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Hillingdon Pension Fund. The Local Government Pension Scheme Regulations require authorities to publish the Pension Fund Annual Report by 1 December 2020. On 26 November 2020 we issued an opinion that stated the Pension Fund Annual Report was consistent with the audited Pension Fund financial statements.

Fees

In the Final Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have quantified the proposed final fee and have provided the Corporate Director of Finance with appropriate supporting details.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work and in particular given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic and their collaborative approach which enabled us to complete the 2019/20 audit by working remotely.



Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Reports to Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 3 February 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2019/20 financial statements of the Council and Pension Fund; and
 - ▶ On the consistency of other information published with the financial statements, including the Pension Fund Annual Report.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement (AGS) is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

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

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

Section 3

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 26 November 2020.

Our detailed findings were reported to the 24 November 2020 Audit Committee. The key issues identified as part of our audit were as follows.

Council

Significant risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Audit Committee.
Incorrect capitalisation of revenue expenditure	We did not identify any matters to report to the Audit Committee.
Valuation of land and buildings	We determined that the valuation was materially stated but we did report a potential difference of £4.1m in the valuation of secondary schools. We have recommended that the Council consider the issues we reported as part of the 2020/21 valuation process.
Incorrect classification of the dedicated schools grant (DSG) deficit	The Council has classified the DSG deficit in line with accounting requirements. Like other councils with a DSG deficit, the Council has a deficit recovery plan which aims to manage the deficit position.

Other audit risks on the Council audit

Pension liability – The Council's pension liabilities were appropriately disclosed in the accounts. The Council did amend the liability for the impact of one of the national issues (McCloud) but did not for the Goodwin ruling on the basis that the estimated difference was not material in 2019/20.

Going concern – the Council has assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made an appropriate disclosure in the statements.

Financial Statement Audit (cont'd)

Key Issues

Pension Fund

Significant risks	Conclusion
Risk of Management Override: Posting of investment journals	We did not identify any matters to report to the Audit Committee.
Valuation of investments	Covid-19 had an impact on the valuation of some investments such that the Fund reclassified £165m of pooled property investments from level 2 (where some relevant, reliable market evidence would be available) to level 3 (where such information was more difficult to obtain). The information that the Fund used to support the valuation of the pooled property, included valuation reports where the valuer had included a material uncertainty caveat on valuations at the 31 March 2020 due to the impact of Covid-19. As a result and given the significant value of such assets to the Fund, we included a paragraph in the Pension Fund audit opinion, emphasising the Fund's disclosure of the material uncertainty caveat.

Other audit risks on the Pension Fund audit

Going concern – the Pension Fund has assessed the impact of Covid-19 on its cash and asset position into 2020/21 and 2021/22 and made an appropriate disclosure in the statements.

Post balance sheet events – The Pension Fund has made an appropriate disclosure in the statements.

Financial Statement Audit (cont'd)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	LB Hillingdon: We determined planning materiality to be 1.8% of Gross Expenditure on provision of services and performance materiality at 75% of planning materiality. Hillingdon Pension Fund: Our planning materiality represents 1% of the prior year's net assets, consistent year on year. Performance materiality represents 75% of planning materiality.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of 5%.

Materiality	LBH	HPF
Planning	£14.827m	£9.92m
Performance	£11.121m	£7.44m
Reporting	£0.649m	£0.496m

Section 4

Value for Money



Value for Money

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

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

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

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 LG bodies' 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.

We identified one significant risk in relation to the arrangements the Council had in place to manage the financial challenges outlined in its Medium term financial strategy.

We reported in detail as part of the Audit Results Report and do not repeat our findings here.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Section 5

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We have substantially completed this work subject to receiving the revised version of the consolidation pack. This has been delayed due to a national IT issue. HM Treasury are working on a fix, which once applied will enable us to conclude this work and report to the National Audit Office.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We had no matters to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Reports to the Audit Committee on 24 November 2020. 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 the regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Section 6

Focused on your future



Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the Council is summarised in the table below.

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Continued

Focused on your future

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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

Standard	Issue	Impact
IFRS 16 Leases	<p>It was proposed that IFRS 16 (Leases) would be applicable for local authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>However in response to the ongoing pandemic and its pressures on council finance teams, CIPFA announced that the implementation will be deferred until the 2022-23 financial year.</p> <p>CIPFA has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness.</p>	<p>There are transitional arrangements within the standard and it is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

A photograph showing a stack of papers and documents held in a clear plastic folder tray. The papers include various reports, graphs, and tables, suggesting financial or audit-related documentation.

Section 8

Audit Fees

Audit Fees

Fees

Following communications to the Audit Committee on the changes and challenges impacting the audit profession, in May 2020 we communicated to the Corporate Director of Finance our view of the inadequacy of the current scale fee to enable us to deliver a quality audit in accordance with the NAO Code. In our view the scale fee should be increased by £82,728 for the Council and £28,290 for the Pension Fund and we provided details supporting our rationale. At the same time we opened dialogue with PSAA on our view of scale fees nationally and shared with them proposed revisions for all our local government audited bodies. We include our proposed increase to the scale fee in the tables below. We remain in dialogue with PSAA over the scale fees. We include our proposed revision to the scale fee in the tables below.

In addition, in the Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have now quantified the proposed fee. We have shared with the Corporate Director of Finance supporting details and now agreed the additional fees. We will now seek approval from PSAA.

London Borough of Hillingdon Fee:

*We have listed below separately the specific additional costs in 2019/20. We have also included the proposed overall increase to the scale fee separately. The proposed increase to the scale fee would cover some of these one off additional costs and therefore these would not be double counted.

	Final fee 2019/20 (£)	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee – Code work	121,096	121,096	121,096
Additional work:			
• Property valuations including RICS related material uncertainty	8,005	-	6,995
• IFRS 9	-	-	1,275
• Correspondence from a member of the public	-	-	1,758
• Pension changes	5,825	-	-
• VFMC significant risk	5,075	-	-
• Going concern assessment and disclosure	4,754	-	-
• EY consultation on auditor's report on the statements involving EY professional practice directorate to ensure the auditor's report is appropriate.	2,968	-	-
• Covid-19 related inefficiencies	4,590	-	-
Total current scale and additional fees	152,313	TBC	131,124
Proposed increase to the scale fee	82,728*	-	-

Audit Fees (contd.)

Hillingdon Pension Fund – We have provided details to support each area of additional work and now agreed the additional fees with the Corporate Director of Finance. We will now seek approval from PSAA, accept for * which is outside of the PSAA fee regime.

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work	16,170	16,170	16,170
Additional work and associated fees:			
IAS 19 Assurance Work & Triennial Review procedures*	9,000	5,000-9,000	-
Significant risk on investments	1,742	-	1,265
Restated membership numbers	894	-	-
Going concern and PBSE assessments and disclosures including EY consultations	5,500	-	-
Total scale and additional fees	33,306	TBC	17,435
Proposed revision to scale fee	28,290		

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