

**London Borough of
Hillingdon**
Initial audit results report

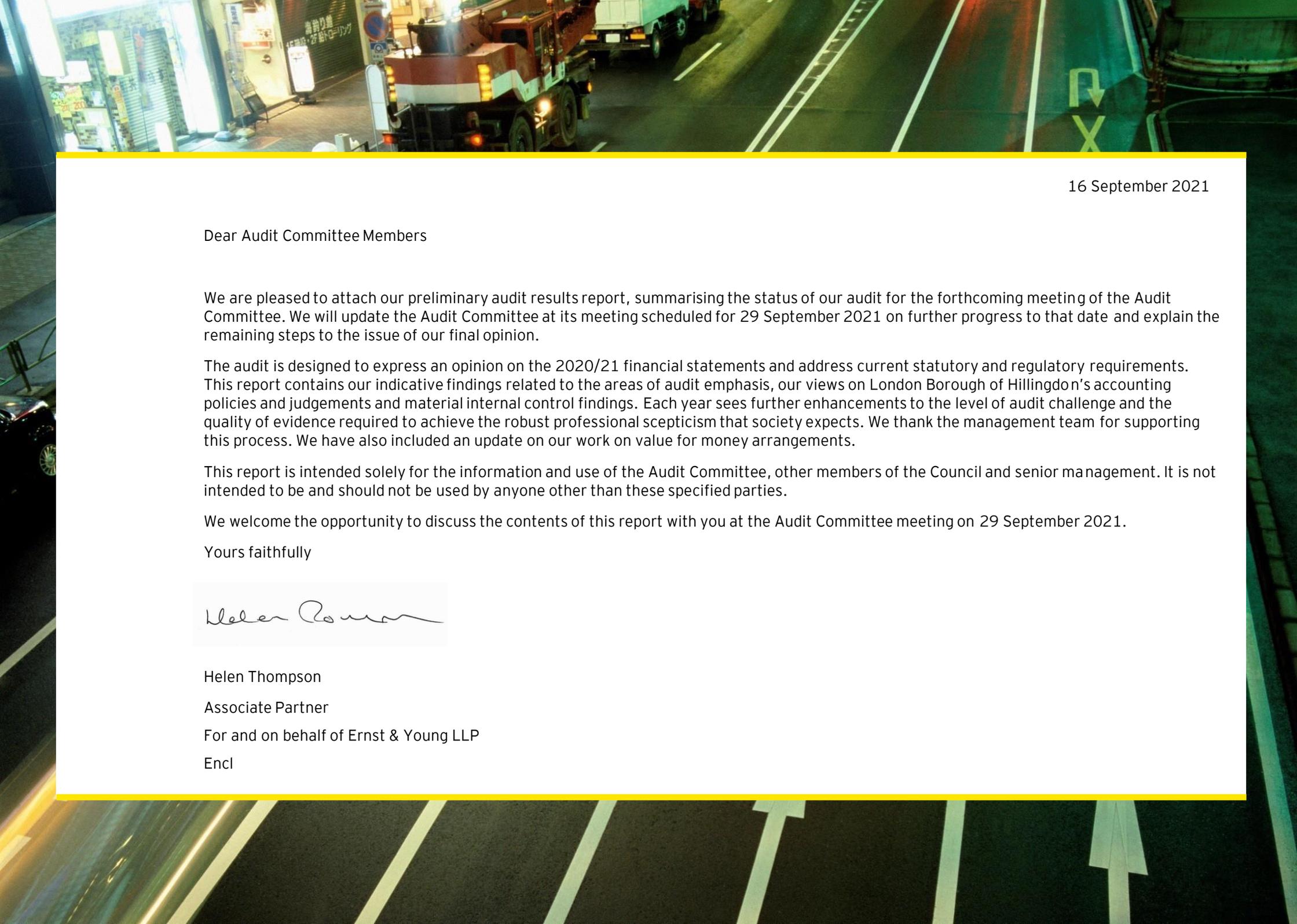
Year ended 31 March 2021

16 September 2021



EY

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16 September 2021

Dear Audit Committee Members

We are pleased to attach our preliminary audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 29 September 2021 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our indicative findings related to the areas of audit emphasis, our views on London Borough of Hillingdon's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 29 September 2021.

Yours faithfully



Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01 Executive Summary

Executive Summary

Scope update

In our outline audit planning report presented to the 20 April 2021 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 updates.

► Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1.8% of the gross expenditure, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£14.8 million	£11.1 million	£0.7 million
Final	£13.8 million	£10.3 million	£0.7 million

- **Key Audit Partner:** starting with August 2021, the new Key Audit Partner is Helen Thompson
- **Areas of audit focus:** at the planning stage we identified a new area of focus around non-domestic rates appeals provision due to Covid-19 uncertainties. Subsequently, new information became available to us which determined us to downgrade the risk and exclude it from the list of areas of focus.
- **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 Council and its stakeholders the firm has introduced a rigorous risk assessed consultation process for all auditor reports to ensure that they include the appropriate narrative.
- **Changes to reporting timescale:** as a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus)(Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Executive Summary

Scope Update

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

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 Council'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
- Agreed IPE to scanned documents or other system screenshots.

Status of the audit

Our audit work in respect of the Council's opinion is in progress. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ completion of testing and review of a number of accounts, including property valuations
- ▶ completion of necessary assurance procedures for the valuation of defined benefit pension liability disclosed in the statement of accounts
- ▶ finalisation of execution general audit procedures
- ▶ going concern assessment review and disclosures
- ▶ agreement of all final amendments to the financial statements
- ▶ completion of internal review processes

The following are also outstanding or are to be completed as part of the conclusion of the audit:

- ▶ completion of our audit conclusion procedures
- ▶ review of the final version of the financial statements
- ▶ completion of subsequent events review
- ▶ receipt of the signed management representation letter
- ▶ completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion. Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Narrative Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures remain to be finalised and audited. A draft of the current opinion is included in Section 03.

Executive summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. 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; and
- 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.

Status of the audit - Value for Money

We reported in our Outline Audit Planning Report that we had not commenced our detailed value for money planning against the new NAO Code requirements and that we would update the next Committee meeting on the outcome of our planning and our planned response to any identified risks of significant weaknesses in arrangements. We have now completed our planning work and have noted the following:

- ▶ Our planning on value for money and the associated risk assessment focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria.
- ▶ We have not identified any significant risks regarding the Council's 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

Executive summary

Audit differences

There are currently no final uncorrected mis-statements greater than our reporting threshold for uncorrected misstatements of £0.7 m.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Audit Committee at the meeting on 29 September 2021 if we identify any issues by the time of the meeting.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. 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. Officers are still awaiting the final guidance supporting the WGA submission for 2020/21. This work will be completed at the end of the audit and we will provide an update on WGA when the work will be completed.

We have no other matters to report.

Areas of audit focus

In our outline audit planning report we identified a number of key areas of focus for our audit of the financial report of the Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report and a short summary is presented on the next page.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues;
- ▶ You concur with the resolution of the issue; and
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised.

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



Executive Summary

Areas of audit focus

Significant risks	Findings & conclusions
Management Override: Misstatements due to fraud or error	Based on our work completed up to the date of this report, we have not identified 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 Council's normal course of business.
Incorrect capitalisation of revenue expenditure	Up to this stage, we have found no indications of inappropriate posting of capitalisation of revenue expenditure journals. The status of our work is detailed in Section 02 of our report.
Misstatements due to fraud or error - accounting adjustments made in the 'Movement in Reserves Statement'	We substantially completed the work and it is now under review. Based on the progress to date, we have not identified any issues with management's application of the relevant statutory guidance.
New central government grants and other Covid-19 funding streams	Our work on Covid-19 grants is ongoing. We have no findings to report at this stage.
Risk of error in the valuation of land and buildings - Schools	We are working with our real estates valuation specialists and the valuation testing is well progressed. Certain differences of opinion are being investigated at the moment between the audit team, management and management's specialist.
Other area of audit focus	Findings & conclusions
Pension liability	As at the date of this report, our planned work in this area is in progress and we are expecting to receive the IAS19 letter from the audit team of Hillingdon Pension Fund. An issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. Further details are set out in Section 02 of this report.
Consideration of Group Boundary	We have not identified any issues with regards to management's approach not to consolidate Hillingdon First Limited in the 2020/21 accounts on grounds of materiality.
Going concern	The draft accounts include a detailed disclosure on going concern. As of the date of this report, we have received the working papers from management to support the going concern basis. Our review and challenge of the inputs and assumptions used in the going concern assessment and of the disclosure in the draft accounts is underway.
Valuation of Land and Buildings (in addition to schools)	Our valuation testing of fixed assets outside of schools is still underway and we have not concluded on this area of focus. We have no items to report at this stage.



Executive summary

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.

Independence

In our outline audit planning report presented at the 20 April Audit Committee meeting we did not identify any independence issues.

Please refer to Section 9 for our update on Independence.



02

Areas of Audit Focus



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 Council, 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 Council.
- ▶ 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 Council'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 ongoing. Up to the date of this report, we have not identified 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 Council's normal course of business.



Areas of Audit Focus

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 Council'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 and REFCUS to ensure that they have been correctly classified and included at the correct value in order to identify any revenue items that have been inappropriately capitalised or recognised as REFCUS.

What are our conclusions?

Capital expenditure in relation to investment properties 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) classification.

Our testing of capital additions is complete. We did not identify any instances where expenditure had been inappropriately capitalised. We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error - accounting adjustments made in the 'Movement in Reserves Statement' (Fraud Risk)

What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management could misstate accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning: capital grants; depreciation, impairments and revaluation losses; capital expenditure funded by revenue; and minimum revenue provision.

What judgements are we focused on?

Accounting adjustments made in the Movement in Reserves Statement that could result in a misstatement of the General Fund balance.

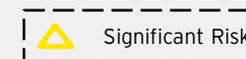
What did we do?

We reviewed the adjustments made in the movements in reserves statement with reference to CIPFA guidance and checklists and consistency with other relevant areas of the accounts.

We also reviewed the Council's policy and application of the minimum revenue provision (MRP).

What are our conclusions?

We substantially completed the work and it is now under review. Based on the progress to date, we have not identified any issues with management's application of the CIPFA guidance and the statutory guidance on MRP with regards to adjustments made in the movements in reserves statement.





Areas of Audit Focus

Significant risk

New central government grants and other Covid-19 funding streams

What is the risk?

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.

In addition, the Government announced further financial support to councils in July 2020 to partially reimburse them for lost income (eligible lost sales, fees and charges income) resulting from Covid-19.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council had to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements.

What judgements are we focused on?

Whether the Council is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, the Council also had to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

What did we do?

Sample testing government grant income to establish whether correctly classified as principal or agent. Testing underlying conditions and restrictions and relevant disclosures and classifications.

What are our conclusions?

Based on our progress of work to date, we have not identified any issues around treatment of grants as principal or agent. Adequately disclosures of grant income received in the year have been included in the accounts under both principal and agent arrangements.

We have not identified any exceptions with regards to the accuracy and compliance of grants with the requirements of the relevant schemes.

Testing is still underway and therefore we have not concluded on this area of focus.





Areas of Audit Focus

Significant risk

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

What is the risk?

The current value of Property, Plant and Equipment represents a significant balance in the Council's accounts, totalling £1.9 billion, out of which approximately £600m is school properties. These assets are subject to valuation changes, impairment reviews and depreciation charges.

In calculating amounts recorded in the Council's balance sheet, management is 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 and unusual value movement.

What did we do?

We confirmed that the Council'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 instructed our internal valuers to support us with our work in this area due to the complexity of the estimates involved in valuation and the prior period audit differences identified.

We asked our internal valuation specialists to review a sample of assets across the portfolio including primary and secondary schools.

We are considering the impact of assets not revalued in year and the material correctness of valuations at that date.

Testing is still underway and therefore we have not concluded on this area of focus.





Areas of audit focus

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on

What is the risk/area of focus?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Surrey County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £739 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuaries to the relevant Pension Funds.

Accounting for this scheme involves significant estimation and judgement and therefore management engages a actuaries 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.

Consideration of Group Boundary

During 2018/19, the Council created a housing company, Hillingdon First Limited. Depending on the qualitative consideration of and quantitative size of the company, the finance team will need to consider the preparation of Group Accounts.

What did we do?

Our testing for the defined pension liability is still underway and we have not concluded on this area of focus.

As at the date of this report, our planned work in this area is largely complete, but an issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. This is in relation to the impact of the revised auditing standard on accounting estimates.

We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The revised auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will provide the Committee with a verbal update on progress at the 29 September 2021 meeting.

We reviewed the Council's assessment of the need to prepare Group Accounts as a result of transactions occurring within the subsidiary within the financial year.

We have not identified any issues with regards to management's approach not to consolidate Hillingdon First Limited in the 2020/21 accounts on grounds of materiality.



Areas of audit focus

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on

What is the risk/area of focus?

Assessment and disclosures on Going Concern

Covid-19 has created a number of financial pressures throughout local government, creating financial stress in either, or a combination of, increasing service demand leading to increased expenditure in specific services, and reductions in income sources.

There remains a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the significant risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive.

The auditor's report in respect of going concern covers a 12-month period from the date of the audit report, therefore the Council's assessment will also need to cover this period. The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What did we do?

We are required to meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

We discussed the detailed implications of the revised auditing standard with finance staff and noted the information provided in the committee papers, budget and the Medium Term Financial Strategy (MTFS) in support of the going concern disclosure.

At the time of writing this report, management has provided their assessment and our review is underway.

Audit risks

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as risks, but are still important when considering the areas of audit focus.

What is the area of focus?

Valuation of Land and Buildings

The carrying amount of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to impairment reviews, depreciation charges and revaluation changes. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Based on our prior experience, we identified a higher risk around valuation of schools, which make part of the PPE balance. We singled out the significant risk attributable to valuation of schools as a separate area discussed earlier in this section. This section focuses on the inherent risk around valuation of the remaining balance of PPE.

What did we do?

Our work comprises, but is not limited to:

- ▶ Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- ▶ Considering if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewing assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation; and
- ▶ Testing whether accounting entries were correctly processed in the financial statements.

Alongside school properties, where we identified a significant risk around valuations, we selected a sample from the wider pool of properties and we asked our internal valuers to support us with our work in this area due to the complexity of the estimates involved in valuation.

Our testing is still underway and we have not concluded on this area of focus.



03 Audit Report



Draft Audit Report

NB This is an example report - our audit report will not be completed and issued until the work is complete

Our opinion on the financial statements

Opinion

We have audited the financial statements of London Borough of Hillingdon for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, Movement in Unusable Reserves, Cash Flow Statement, and the Expenditure and Funding Analysis and related Notes to Main Financial Statements 1 to 45; the Housing Revenue Account and Notes 1 to 8, the Collection Fund Account and Notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Hillingdon as at 31 March 2021 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 2020/21.

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 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Corporate Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, 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.

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 course of 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



Draft Audit Report

NB This is an example report - our audit report will not be completed and issued until the work is complete

Our opinion on the financial statements

a material misstatement in the financial statements themselves. 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.

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 Authority;
- 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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities set out on page 16, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.



Draft Audit Report

NB This is an example report - our audit report will not be completed and issued until the work is complete

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- the Local Government Act 1972;
- Local Government and Housing Act 1989 (England and Wales)
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992)
- the Local Government Act 2003;
- the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020;
- the National Health Service Act 2006;
- the Local Audit and Accountability Act 2014; and
- the Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how London Borough of Hillingdon is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of Corporate Director of Finance, Deputy Director of Exchequer Services & Business Assurance, Borough Solicitor, and Chairman of the Audit Committee and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes, through enquiry of employees to confirm Authority policies and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure, management override of controls and accounting adjustments made in the 'Movement in Reserves Statement' to be our fraud risks.

- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for significant unusual transactions.



Audit Report

NB This is an example report – our audit report will not be completed and issued until the work is complete

Our opinion on the financial statements

- To address our fraud risk of accounting adjustments made in the 'Movement in Reserves Statement', we reviewed the adjustments made in the movements in reserves statement with reference to CIPFA guidance and checklists and consistency with other relevant areas of the accounts. We also reviewed the Council's policy and application of the minimum revenue provision.

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 reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether London Borough of Hillingdon had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether 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 2021.

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, 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.

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 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.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton



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.

There were no corrected or uncorrected misstatements at this stage of the audit. As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Audit Committee at the meeting on 29 September 2021 if we identify any issues by the time of the meeting.



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

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.

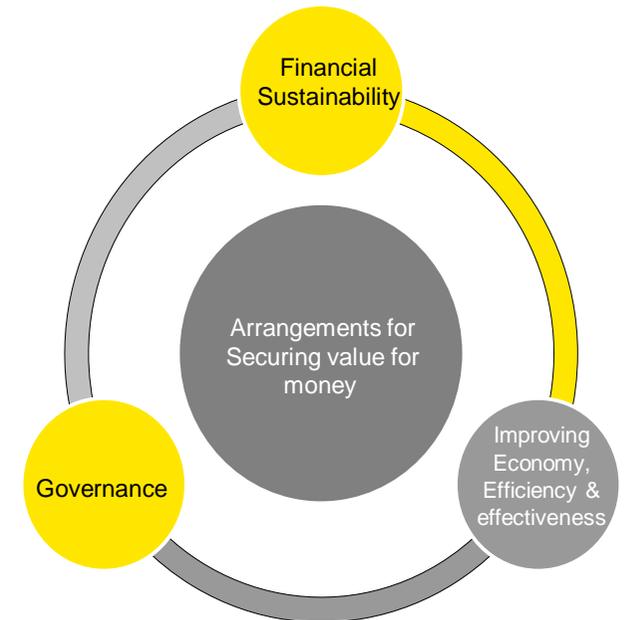
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its 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 its arrangements for securing value for money from their use of resources.

Risk assessment

We reported in our Outline Audit Planning Report that we had not commenced our detailed value for money planning against the new NAO Code requirements and that we would update the next Committee meeting on the outcome of our planning and our planned response to any identified risks of significant weaknesses in arrangements. We have now completed our planning work and have noted the following:

- ▶ Our planning on value for money and the associated risk assessment focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria.
- ▶ We have not identified any significant risks regarding the Council's 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources, and have no matters to report 'by exception' in our Auditor's Report (See Section 3).

We plan to issue the VFM commentary by December 2021 as part of issuing the Auditor's Annual Report.





06 Other reporting issues

Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. Since the financial statements' audit is not finalised, we are not in a position to confirm consistency at this stage.

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.

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

Whole of Government Accounts

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

We have not yet been able to perform the procedures required by the National Audit Office on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance was not expected to be available until December 2021. Therefore the 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HM Treasury make to the DCT and process.

Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). As at the date of this report, we have not identified any issues which required us to issue a report in the public interest.

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 Council’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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations.

As at the date of this report we have nothing in respect of other matters that we need to bring to the attention of the Audit Committee.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council 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 Council 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.



08 Data Analytics



Management Override of Controls

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

At the data of writing this report our journal entry testing is not concluded.



09

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and 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 1st April 2020 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 next page includes a summary of the fees associated with the audit for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown on the next page. Further detail of all fees has been provided to the Audit Committee with measurement against pre-approved limits.

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

We confirm that we have not undertaken any non-audit work.

Independence - Fees

As part of our reporting on our independence, we set out below a summary of the final fees for the year ended 31 March 2021. Full details of the services that we have provided are shown below. We have also included the non-audit services fees. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

*These additional fees are subject to approval from PSAA.

**The scale fee is set by PSAA as indicative and does not reflect the actual costs of undertaking the audit, to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work in Section 02. In our planning report, we included an estimate of the scale fee increase by £82,728 to reflect those underlying costs. This is not reflected in the table below. We will discuss and agree a final fee with management and PSAA, and communicate progress to the Audit Committee.

There were no fees receivable outstanding at the time of writing this report.

	Final fee 2020/21 (£)	Planned fee 2020/21 (£)	Final Fee 2019/20 (£)
Scale Fee - Code work	121,096**	121,096**	121,096**
Additional work:			
- Property valuations	TBC	5,000-10,000	8,005*
- Pension liability (IAS19)	-	-	5,825*
- VFM significant risk (C-19 impact on financial resilience)	-	-	5,075*
- Going concern assessment and disclosure	TBC	2,500-5,000	4,754*
- EY consultation on auditor's report involving EY professional practice directorate	TBC	1,500-3,000	2,968*
- Business rates appeal, Covid-19 grants and the revised auditing standard for accounting estimates	TBC	TBC	-
Covid-19 related inefficiencies	-	-	4,590*
Total current scale and additional fees	TBC	TBC	152,313
Non-audit services:			
Housing Benefits	TBC	TBC	28,290
Capital receipts return	TBC	TBC	8,000
Teachers' Pensions	TBC	TBC	12,500
Total other non-audit services	TBC	TBC	48,790

Other communications

EY Transparency Report 2020

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 2020:

[EY UK Transparency Report 2020 | EY UK](#)

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, orange, blue, white) and sizes, each containing stacks of papers. The background is a light-colored, textured wall.

10 Appendices

Audit approach update

We summarise overleaf 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 
Debtors	Substantively tested all assertions	Substantively tested all assertions	No change
Creditors	Substantively tested all assertions	Substantively tested all assertions	No change
Investments	Substantively tested all assertions	Substantively tested all assertions	No change
Property, Plant & Equipment	Substantively tested all assertions	Substantively tested all assertions	No change
Cash & Cash Equivalents	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
Net Liabilities Related to Defined Benefit Pension Schemes	Substantively tested all assertions	Substantively tested all assertions	No change
Usable and Unusable Reserves	Substantively tested all assertions	Substantively tested all assertions	No change

Appendix B

Summary of communications

Date 	Nature 	Summary 
Throughout the year	Meetings, calls and emails.	The Associate Partner and Manager have been in regular contact with the Corporate Director of Finance and the finance team in respect of the Council's risks, audit timeline and resource planning, accounts closedown and the audit approach.
8 July 2021	Meeting	Introduction of Helen Thompson as the new partner in charge to the Council's Corporate Director of Finance.
6 September 2021 and 13 September 2021	Meeting	We held a meeting with the Council's Corporate Director of Finance, the Deputy Director of Corporate Finance, the Head of Finance and with EY's Associate Partner and Manager, where we discussed audit progress and the timescale.
14 September 2021	Meeting	We held a meeting with the Council's Chief Executive, the Cabinet Member for Finance, the Corporate Director of Finance and the Head of Finance and with EY's Associate Partner and Manager, where we discussed the status of the audit, the key steps to complete the work and the timetable impact.
All Audit Committee meetings held in the year	Committee attendance	The Associate Partner and Manager have attended the meetings of the Audit Committee held throughout the financial year and to the date of issue of this report. Specific reports issued and communications with the Committee are detailed in Appendix C.

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

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Outline Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ 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 	This Initial Audit Results Report Final Audit Results Report

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	<p>This Initial Audit Results Report Final Audit Results Report</p>
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	<p>This Initial Audit Results Report Final Audit Results Report</p>
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>This Initial Audit Results Report Final Audit Results Report</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ 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 entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> 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. 	This Initial Audit Results Report Final Audit Results Report
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ 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 entity 	This Initial Audit Results Report Final Audit Results Report
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: <ul style="list-style-type: none"> ▶ 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 	Outline Audit Planning Report This Initial Audit Results Report Final Audit Results Report

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ 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 ▶ 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 ▶ 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	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	This Initial Audit Results Report Final Audit Results Report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 	This Initial Audit Results Report Final Audit Results Report

Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	This Initial Audit Results Report Final Audit Results Report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	This Initial Audit Results Report Final Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	This Initial Audit Results Report Final Audit Results Report
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Initial Audit Results Report Final Audit Results Report
Fee Reporting	<ul style="list-style-type: none"> ▶ 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 	Outline Audit Planning Report This Initial Audit Results Report Final Audit Results Report

Management representation letter

NB This is an example letter - the final letter template will not be available until the work is complete

Provisional Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of London Borough of Hillingdon (“the Council”) for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of London Borough of Hillingdon as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free

of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, 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. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented as *at the date of this audit results report*.

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

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address 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 financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

Management representation letter

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- 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 financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Full Council and the Cabinet (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following dates:

- Full Council: 9 September 2021
- Cabinet: 2 September 2021

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

7. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

8. From the date of our last management representation letter at 24 November 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the

Management representation letter

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best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

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 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 to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note Going Concern in the financial statements discloses all 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.

F. 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 financial statements or notes thereto.

G. Other information

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

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of council dwellings, other land and buildings and surplus assets classified as property, plant & equipment, valuation of pension liabilities and assets, and estimation of fair value of financial liabilities, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

Valuation of council dwellings, other land and buildings and surplus assets classified as Property, Plant and Equipment and of Pension Liability and Assets (the 'Estimates')

1. We confirm that the significant judgments made in made in performing the revaluation of the Estimates have taken into account all relevant information and the effects of the COVID-19 pandemic which we are aware.

Appendix D

Management representation letter

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2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in performing the revaluation of the Estimates.

3. We confirm that the significant assumptions used in performing the revaluation of the Estimates appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialized skills or expertise has been applied in undertaking the revaluation of the Estimates.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

J. Retirement benefits

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.

I confirm that this letter has been discussed with the Chairman of the Audit Committee on 29 September 2021.

Yours faithfully,

Paul Whaymand - Corporate Director of Finance
Councillor Martin Goddard - Chairman of Pensions Committee

Appendix E

Progress report on implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2022/23 Code. The following table summarises the actions necessary to implement the adoption of IFRS 16 from 1 April 2022:

IFRS 16 theme 	Summary of key measures 
Data collection	Management should have: <ul style="list-style-type: none"> ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classified all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identified, collected, logged and checked all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The council need to agree on certain policy choices. In particular: <ul style="list-style-type: none"> ▶ Will the council adopt a portfolio approach? ▶ Has the low value threshold been set and agreed with auditors? ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components? ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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