

A photograph showing a meeting table with several documents. Hands are visible, pointing at the documents. A smartphone is on the table. A yellow banner is overlaid on the left side of the image.

London Borough of Hillingdon and Hillingdon Pension Fund Audit progress update

November 2022



Audit Committee
London Borough of Hillingdon (the 'Council') and Hillingdon Pension
Fund (the 'Pension Fund')
Uxbridge
UB8 1UW

November 2022

Dear Audit Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Audit Committee with an overview of the current status of the Council's and the Pension Fund 2021/22 audits. This report is a key mechanism in ensuring that our audits are aligned with the Committee's service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully

Helen Thompson
For and on behalf of Ernst & Young LLP
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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

Progress Update – Financial Statements of the Council





Status of the 2021/22 audit

2021/22 financial statements

Our Outline Audit Planning Report identified the key areas of focus for our audit of the Council's 2021/22 financial statements, which have not changed as of the date of this progress report. This page sets out our progress and observations on work to date on these areas. We will provide a further verbal update to the 15 November 2022 Audit Committee meeting.

Our audit has been progressing with the support of the Council's accounting team, who have been providing us with timely responses and have been available throughout the audit process to answer our queries. However, we have encountered challenges with the quality of the audit evidence received from the ultimate process holders and delays with supporting evidence for valuation of property, plant and equipment ('PPE') - a key area of the audit.

The audit team has been resourced according to the planned audit timeline, however the issues encountered during the audit process are likely to pose audit resourcing challenges to complete the work.

Risk / area of focus	Risk identified	Progress to date
Management Override: Misstatement due to fraud or error	<i>Fraud</i>	We are carrying out our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management overriding controls through our work to date.
Risk of inappropriate capitalisation of revenue expenditure	<i>Fraud</i>	Our work in this area is well progressed and subject to internal reviews. There are no issues that we wish to draw to your attention at the date of this report.
Accounting adjustments made in the 'Movement in Reserves Statement'	<i>Fraud</i>	Our work in this area is subject to internal reviews. There are no issues that we wish to draw to your attention at the date of this report.
Valuation of land and buildings valued under the Depreciated Replacement Cost ('DRC') method and the Existing Use Value ('EUV') method	<i>Significant</i>	<p>We selected a sample for review of PPE valuations, including a sample for EYRE review. We shared the sample with the Council, along with the audit evidence requirements. The Council has prepared the valuation supporting evidence, however the initial evidence indicates that the external valuer used incorrect information for valuing certain assets. We agreed with management that a root cause analysis needs to be undertaken and the overall impact on the portfolio of land and buildings needs to be assessed before we commission our internal valuation experts EY Real Estates (EYRE) to support our work in this area.</p> <p>We are also expecting to receive the Council's assessment of asset values not revalued as of the reporting date 31 March 2022.</p>



Status of the 2021/22 audit

2021/22 financial statements

Risk / area of focus	Risk identified	Progress to date
Derecognition of infrastructure assets upon subsequent expenditure/replacement	<i>Significant</i>	<p>This is a local government nationwide issue and it is currently under consideration by CIPFA, who intend to make changes to the Local Authority Accounting Code of Practice. A statutory override of some accounting requirements is also being considered by the Department of Levelling Up, Housing and Communities, and we understand that this will be laid before Parliament at the end of November. We will consider the impact of any changes made to the accounting framework on the position at the Council as further details are made available.</p> <p>We have requested details about the accounting treatment adopted by the Council for infrastructure assets, who are in turn waiting for the final views from CIPFA before sharing their own assessment.</p>
Pensions Liability Valuation	<i>Inherent</i>	<p>We have received the draft letter to support our work from the audit of Hillingdon Pension Fund and our work in this area was progressed and reviewed, subject to the Pension Fund letter being finalised (see details under the Pension Fund update section).</p> <p>We engaged EY Pensions to create an auditor's estimate for the pension liability. The estimated liability fell inside the expected range. This scope of work was completed and we have no findings to report in this regard.</p> <p>Similar to prior year, we identified a judgmental understatement of pensions liability due to the Goodwin case by £2.5 million and a factual overstatement by £7.1 million. The latter is due to timing differences in the final valuation of the Pension Fund's assets compared to an earlier submission of preliminary asset values for IAS19 actuarial liability estimation. These audit differences remain uncorrected.</p>
Valuation of Council Dwellings	<i>Inherent</i>	<p>We have started our review of the Council Dwellings valuation. We are challenging 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. We have no items to report as of the date of this report.</p>
Consideration of Group Boundary	<i>Inherent</i>	<p>We reviewed the Council's assessment of the need to prepare Group Accounts as a result of transactions occurring within the subsidiary during the financial year ending on 31 March 2022. We concurred with the Council's conclusion that the consolidation requirement was not triggered for this financial year.</p>
New central government grants and other Covid-19 funding streams	<i>Inherent</i>	<p>We selected a sample and tested government grant income to ensure that it has been recorded at the correct amount and correctly classified as specific or non-specific in nature. This work has been prepared and is subject to internal review. We established that both grant income and grant expenditure were overstated by £7.5 million. Management proposed to correct this error in the statement of accounts.</p>
Going Concern Disclosure	<i>Inherent</i>	<p>The draft financial statements have been prepared on a going concern basis. Management's assessment of going concern will be provided to us closer to the completion of the audit and we will perform our planned procedures then.</p>



02

Progress Update – Value for Money





Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

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

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

Status of our 2021/22 VFM planning

In our Outline Audit Planning Report presented to the July meeting of the Audit Committee, we reported that we were undertaking our VFM Planning work and would update the Committee in due course on whether we identified risks of significant weaknesses in arrangements. We have commenced our VFM work and no such risks have been identified to date.



03

Progress Update – Financial Statements of the Pension Fund





Status of the 2021/22 audit

2021/22 financial statements

Our Outline Audit Planning Report identified the key areas of focus for our audit of the Pension Fund's 2021/22 financial statements, which have not changed as of the date of this progress report. This page sets out our progress and observations on work to date on these areas. We will provide a further verbal update to the 15 November 2022 Audit Committee meetings.

The audit is well progressed, subject to final internal reviews. Management is working on establishing accurate membership numbers required to be disclosed in the statement of accounts, which is more challenging in relation to the change of administrator. With regards to our risks and areas of focus, we have the following findings to bring to your attention at the date of this report:

Risk / area of focus	Risk identified	Progress to date
Management Override: Misstatement due to fraud or error	<i>Fraud</i>	Subject to final internal reviews, we have not identified any indications of management overriding controls through our work undertaken as lined up in the Outline Audit Planning Report.
Misstatement of investment income and investment values through fraudulent journal entries	<i>Fraud</i>	Our work in this area is prepared and subject to final internal reviews. There are no issues that we wish to draw to your attention at the date of this report.
Risk of incorrect valuation of unquoted (Level 3) investments	<i>Significant</i>	Our work in this area is prepared and subject to one open item pending with the Pension Fund. We noted that five investments valued at a total of £47 million were classified at level 2 fair value hierarchy, however we were not able to obtain clear observable inputs used in their valuation. Thus, we proposed a re-classification to level 3 fair value hierarchy, which management accepted to correct in the accounts. We have no other findings to report at this date, subject to the final open item being cleared satisfactorily.
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	<i>Inherent</i>	Our work in this area is prepared and subject to internal reviews. We assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - consulting actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. To meet the requirements set by ISA540, we used the work of our expert EY Pensions to create an auditor's estimate for the pension liability. The liability fell within our expected range as a whole. We noted a judgmental audit difference due to the Goodwin case of £2.9 million understatement of the total pension fund liability disclosure in the accounts. This audit difference remains uncorrected.
Going Concern Disclosure	<i>Inherent</i>	The draft financial statements have been prepared on a going concern basis. Management's assessment of going concern will be provided to us closer to the completion of the audit and we will perform our planned procedures then.