EXTERNAL AUDIT ANNUAL GOVERNANCE REPORT

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SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2009/10 Statement of Accounts and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money audit). Regulations require that the auditor's report is communicated to those charged with governance before the accounts are formally signed off on 23 September 2010.

The report is currently in draft pending the conclusion of the audit. It is expected the audit will be complete by the time the committee meets and a verbal update on progress will be given at the meeting.

Since the approval of the accounts on 28 June 2010 a small number of amendments have been identified by the Corporate Accountancy team and Audit that have been discussed and agreed and the financial statements have been amended to reflect these.

The auditor has indicated that he expects to issue an unqualified opinion on the Financial statements on 23 September 2010. An unqualified opinion is also expected on the Value for Money audit.

RECOMMENDATIONS

The Committee notes -

The audit adjustments are set out in the attached report from page 21 and in Appendix 1.

The internal control recommendations as set out in the attached report from page 12.

The progress made and actions being taken to continue to improve the quality and accuracy of the information contained within the accounts and to address the matters raised in the report.

REASONS FOR OFFICER RECOMMENDATIONS

It is a requirement that the findings of the audit set out in the report are communicated to those charged with governance prior to Deloitte giving their formal opinion on the financial statements.

INFORMATION

International Standard on Auditing Report 260 (ISA 260)

The draft Statement of Accounts was approved by the committee on 28 June 2010. The Council's auditor, Deloitte, is responsible for undertaking an audit of these accounts. The outcome of the audit is set out in the attached report.

The ISA 260 requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:

- Financial performance and position
- Accounting policies and financial reporting
- Materiality and identified misstatements
- Accounting and internal control systems
- Value for Money (VFM) conclusion

In addition, the Auditor requires a "Management Representation Letter" to be signed by management and the Committee. The contents of this letter are set out at Appendix 3. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON CONTENTS OF THE REPORT

Financial Performance and standing

The report details the Audit view on the general financial performance of the Council and concludes that, despite considerably challenging circumstances, the Council has had another successful year in managing its finances. Deloitte recognise the significant achievement of the council in increasing balances by £2.48 million, in ending the year £5 million under budget and in delivering £7.45 million in savings.

Whilst the deficit for the year shown in the Income / Expenditure account was £125.7 million, this is largely attributable to impairments of school assets that were revalued as part of the 5 year asset valuations programme. This impairment is an accounting requirement which has no impact on council tax payers and is charged to the revenue account simply due to the fact that the Revaluation

Reserve is only three years old and hence does not contain previous valuation gains on these assets against which such impairments would normally be charged.

Accounting policies and financial reporting

As part of the audit, the qualitative aspects of the financial reporting process are also reviewed. Three presentational amendments or additions were suggested and agreed to the council's accounting policies. In relation to financial reporting, there are no outstanding issues.

Audit Adjustments

There were no recorded audit adjustments identified, two unadjusted misstatement and one disclosure deficiency.

Errors of fact

Pension liability £600k:- Pension asset values, for the purposes of annual FRS17 charges, are estimated using known asset values as at 31 December when closing the accounts due to the fact that valuations from fund managers are not available to the actuary in time to prepare FRS17 reports. Asset values transpired to be 0.2% lower than the estimated figure hence the actual value was overstated.

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Differences in Judgment

Asylum Seekers Grant £769k:- In addition to the Special Representation Bid the council recognised an additional amount over and above this to cover 100% of costs. Whilst previous settlement experience provides a level of assurance for the recognition of income for management accounting purposes, such assurance is not sufficient under SSAP21 for recognition in the financial statements.

Housing Benefit Provision £807k:- The Housing Benefit Grant Claim showed a difference to the accounts of £4.9m, of which £4.1m was accounted for by timing differences. The remaining £807k was treated as a bad debt provision but following technical review should have been recognised as income. However management have taken a prudent approach and have made provision for potential Local Authority Error and Administrative Delay Overpayments as errors amounting to 0.25% of the claim would result in the loss of approximately £370k plus performance payments taking the total loss to £800k.

Disclosure Deficiencies

Net asset of Hillingdon Homes £1,494k:- The SORP requires disclosure of net assets for related companies. However due to the required accounting treatment under UK GAAP for indemnity given by the authority to Hillingdon Homes in respect of FRS17 losses, such disclosure would be inconsistent with the accounts of Hillingdon Homes and may confuse the reading of the accounts and so was not made.

Accounting and internal control systems

A number of recommendations have been made in respect of the accounting and internal control environment. All of these recommendations have been agreed by management and actions developed to implement the recommendations. Only one of the recommendations has been identified as high priority.

Progress made since 2008/09 and Actions taken

This is the second year that the accounts have been prepared by a fully staffed and stable Corporate Accountancy team. The experience gained from last year coupled with even earlier closing has enabled greater scrutiny of accounting entries, statements figures, working papers and general integrity of accounting treatments which has contributed to a smooth and successful audit.

The General Ledger was closed a full 18 days earlier than last year; the most challenging timetable ever imposed, for which all departments succeeded in achieving all revenue and capital entries required for closedown in the time available. Similarly audit has been completed three weeks earlier than previous years.

An area of concern identified in the 2008/09 accounts was around validity and classification of some debtor and creditor balances. A full balance sheet review was undertaken following audit resulting in the release of approximately £2.5m to revenue, often from historic balances, with a similar amount taken to Earmarked Reserves. Following this, a series of accounting workshops 'Back to Basics' were delivered to all finance staff that served as a 'refresher' on a number of accounting themes including roles, responsibilities, importance of correct accounting treatment, working paper requirements and ongoing balance sheet management. As a consequence there was a noticeable improvement shown during closing, particularly within debtors, creditors and provisions in comparison to previous years.

The audit protocol established with Deloitte's last year was used again but with improved use of the 'e-room' to track and ensure appropriate officer response to audit queries. The audit was conducted efficiently, to timetable and with minimum obtrusion into officer time and yet, in many areas more rigorously and probing than in previous years.

The outcome of the audit, with only four non-material adjustments, two of which were beyond the control of officers, is very positive and reflects the considerable effort over the last 2 years to improve the Councils performance in financial accounting. Continued efforts will be made to drive through further improvements in accounting standards across the council, not least as this facilitates greater financial control and better budget monitoring which will be ever more important as resources get more and more constrained.

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None