

London Borough of Hillingdon Provisional Audit Results Report

Year ended 31 March 2024

5 February 2025



Audit Committee
London Borough of Hillingdon
Hillingdon Civic Centre
225-226 High St
Uxbridge UB8 1UW

5 February 2025

Dear Audit Committee Members

2023/24 Provisional Audit Results Report

We are pleased to attach our Provisional 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 11 February 2025 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 2023/24 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the London Borough of Hillingdon ('the Council')'s accounting policies and judgements and material internal control findings.

This report considers the impact of Government proposals, which have now been enacted through secondary legislation, to clear the backlog in local audit and put the local audit system on a sustainable footing. The proposals recognise that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Audit Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements, where we consider it necessary to do so.

Given that Statutory Instrument 2024/907 "The Accounts and Audit (Amendment) Regulations 2024" ("SI 2024/907") imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

We have also taken into account SI 2024/907 and Local Authority Reset and Recovery Implementation Guidance Notes issued by the National Audit Office and endorsed by the Financial Reporting Council, together with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

As reported in our 2022/23 Completion Report for Those Charged with Governance, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under these arrangements to reset and recover local government audit. Although we have commenced some work to rebuild assurance ahead of the 2023/24 backstop date, we have not obtained sufficient evidence to be able to conclude that the financial statements are free from material and pervasive misstatement. Taken together with the requirement to conclude our work by the 2023/24 backstop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

We draw the attention of Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix F).

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

Yours faithfully

A handwritten signature in black ink, appearing to read 'Stephen Reid', with a horizontal line underneath.

Stephen Reid

Partner

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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>). 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 July 2021)” 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 the 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 the 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 the 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

Context for the audit - Ministry for Housing, Communities and Local Government (MHCLG) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- ▶ Lack of capacity within the local authority financial accounting profession;
- ▶ Increased complexity of reporting requirements within the sector;
- ▶ Lack of capacity within audit firms with public sector experience;
- ▶ Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

MHCLG (formerly the Department for Levelling-Up, Housing and Communities (DLUHC)) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. SI 2024/907, together with the updated National Audit Office Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). The approach to addressing the backlog consists of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024;
- ▶ Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for audit of the 2023/24 financial statements is 28 February 2025; and
- ▶ Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As reported in our 2022/23 Completion Report for Those Charged with Governance to the Audit Committee we issued a disclaimed audit report on the Council's financial statements for 2022/23 under these arrangements to reset and recover local government audit. Although we have commenced limited work to rebuild assurance ahead of the 2023/24 backstop date, we have not obtained sufficient evidence to have reasonable assurance over all closing balances. As a result of the 2022/23 disclaimed audit report, we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we do not have assurance over 2023/24 in-year movements and some closing balances. We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements. Taken together with the requirement to conclude our work by the 2023/24 backstop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

A summary of the assurances we have gained from our 2023/24 audit procedures is set out at Appendix A.



Executive Summary

Scope update

In our Provisional Audit Planning Report presented at the 30 April 2024 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ In our Provisional Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £15.6 million as 1.8% of the Council's unaudited gross expenditure for 2022/23. We updated our planning materiality assessment using the draft 2023/24 Statement of Accounts and have also reconsidered our risk assessment. Based on our materiality measure of 1.8% of gross expenditure, we have updated our overall materiality assessment to £16.2 million. This results in updated performance materiality, at 50% of overall materiality, of £8.1 million, and an updated threshold for reporting misstatements of £0.8 million; and
- ▶ In our Provisional Audit Planning Report, we communicated that we had completed our initial VFM risk assessment for planning purposes and had not identified any significant risks regarding the Council's 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. We also reported that our VFM risk assessment is an iterative process and would be updated throughout the audit. We have subsequently identified two significant VFM risks in relation to:
 - Financial sustainability; and
 - The quality of Council information (including impact on the Council's ability to support the external audit).

Further details in relation to these risks, including our response to the identified risks and our conclusions on whether the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources are set out in Section 3;

In addition, we have encountered difficulty in performing our audit procedures due to a combination of poor quality working papers and supporting information being provided by the Council and capacity limitations within the Council's finance team. Due to the implementation of the backstop date of 28 February 2025 for the completion of the audit, we agreed with management that both Council and audit resources would be prioritised on those account areas which contribute the most towards the rebuilding of assurance following the disclaimed 2022/23 audit report. Consequently, we have not been able to complete all of our planned procedures and have not obtained sufficient assurance to enable conclusion, notwithstanding the lack of assurance over the brought forward balances from 2022/23, to enable conclusion on whether the Council's 2023/24 financial statements are free from material misstatement. A summary of the assurances we have gained from our 2023/24 audit procedures, along with those areas where we have not been able to gain the planned assurance, is set out at Appendix A. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the 2021/22 audit (no detailed procedures over the balance sheet were performed as part of the 2022/23 audit) is included in Appendix B.

Independence

Please refer to Section 8 for our update on independence.



Executive Summary

Status of the audit

As set out on the previous page, we have not been able to complete all of our planned procedures and have prioritised completion of audit procedures over those account areas which contribute the most towards the rebuilding of assurance following the disclaimed 2022/23 audit report. The performance of our audit procedures in relation to prioritised account areas is substantially complete, however our internal review procedures over this work remains ongoing. Should our internal review procedures identify the need for further work to enable conclusion on an account area this work will not be performed and we will conclude that we have not been able to obtain the necessary assurance. Further details on those account areas where we have been able to complete our audit procedures and those account areas where we have not been able to complete our audit procedures are set out in Appendix A.

In addition, the following items relating to the completion of our audit are outstanding at the date of this report:

- ▶ Receipt of the final Statement of Accounts and performance of final audit checks thereon;
- ▶ Finalisation of the wording of our audit report, reflecting the basis for disclaiming our audit opinion on the 2023/24 financial statements;
- ▶ Receipt of the signed management Letter of Representation; and
- ▶ Subsequent events procedures up to the date of signing.

In addition, the Accounts and Audit Regulations 2015 require that prior to the commencement of the inspection period local authorities must publish the Annual Governance Statement and the Narrative Statement alongside the draft financial statements. The Council did not comply with this requirement as no Annual Governance Statement was published by the Council. Due to this fact, the inspection period run by the Council did not meet the requirements of the Accounts and Audit Regulations 2015 and the Council is required to re-run the inspection period. We are unable to complete our audit until the additional inspection period has been concluded. The Council commenced the additional inspection period on 31 January 2025, and the period must last for a minimum of 30 working days (13 March 2025), therefore the Council will be unable to comply with the backstop date of 28 February 2025.

Audit differences

Due to the fact we have not been able to complete all of our planned audit procedures, we are unlikely to have a complete picture of misstatements which exist, or may exist, within the Council's financial statements and we are not able to conclude that the financial statements are free from material misstatement. Where the procedures we have been able to perform have confirmed the existence of a misstatement, or indicated that a potential misstatement may exist but further procedures required to confirm the existence of a misstatement or to quantify that misstatement have not been performed, we provide details in Section 5.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We would expect that the final Annual Governance Statement is updated to reflect the observations highlighted in Section 3 of this report, but otherwise have no matters to report as a result of this work.

The National Audit Office have not yet issued their group audit instructions in respect of their audit of the Whole of Government Accounts (WGA) therefore no work in relation to the Council's WGA submission has been performed to date.

Areas of audit focus

In our 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 explained within the 'Areas of Audit Focus' section of this report and summarised below.

Misstatement due to fraud or error

- ▶ We have completed our specific procedures to address this risk however we have not completed all of our audit procedures and are therefore unable to conclude on whether the financial statements are materially misstated as a result of fraud or error. We have no observations to report from the specific procedures we completed.

Risk of fraud in revenue and expenditure recognition through inappropriate capitalisation of revenue expenditure

- ▶ We completed our planned procedures and have not identified any inappropriate capitalisation of revenue expenditure.

Valuation of land and buildings valued under the depreciated replacement cost (DRC) method and the existing use value (EUV) method

- ▶ We completed our planned procedures, which focused on assets revalued for 2023/24. Other than one material misstatement of the valuation of Ruislip Golf Course, which management agreed to correct in the final financial statements, we are able to conclude that valuations are materially correct. Due to the fact we do not have opening balances assurance in relation to assets not revalued in 2023/24, we are not able to conclude whether land and buildings as a whole are free of material misstatement.

Derecognition of infrastructure assets upon subsequent expenditure / replacement

- ▶ We have completed our planned procedures and are content that infrastructure assets are accounted for correctly in accordance with the temporary relief for infrastructure asset accounting effective in the CIPFA Code for 2023/24.



Executive Summary

Areas of audit focus (cont.)

Pension liability and the IAS 19 valuations

- ▶ We have completed our planned procedures and are content that pension balances are free of material misstatement. Our procedures have included rebuilding assurance over movements in pension balances which occurred in 2022/23.

Valuation of council dwellings

- ▶ We have completed our planned procedures and are content that the valuation of council dwellings is free of material misstatement. Our procedures have included rebuilding assurance over movements in council dwelling valuations which occurred in 2022/23.

IFRS 16

- ▶ Our initial enquiries into the Council's readiness for adoption of IFRS 16 demonstrated that the Council was still in the 'data collection' phase of preparations for IFRS 16 and not as progressed in its readiness for the new standard as we would have expected. This area was therefore one of the first to be deprioritised and more detailed work on the Council's preparations for IFRS 16 have not been performed.

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

- ▶ There are no 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.

Control observations

During the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls, which are set out within section 6 of this report. We have made recommendations in relation to:

- ▶ The exercise of the public inspection period in accordance with statutory requirements;
- ▶ The Council's readiness for adoption of IFRS 16 in the 2024/25 financial statements;
- ▶ The processes for informing and reviewing asset valuations provided by the external valuer;
- ▶ The basis of valuations for the Council's maintained school land and buildings;
- ▶ The Council's level of access to maintained school payroll information;
- ▶ The methodology and assumptions used to determine NNDR bad debt provisions; and
- ▶ The recognition of accruals for temporary accommodation expenditure



02

Areas of Audit Focus

Areas of Audit Focus

Misstatements due to fraud or error

Misstatements due to fraud or error

▲ Significant Risk

▲ Fraud Risk

What is the risk, and the key judgements and estimates?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

What are our conclusions?

We have completed our specific procedures to address this risk however we have not completed all of our audit procedures over the financial statements and are therefore unable to conclude on whether the financial statements are materially misstated as a result of fraud or error.

We have no observations to report from the procedures we have been able to complete.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatements due to fraud or error by:

- ▶ Identifying fraud risks during the planning stage of our audit;
- ▶ Inquiring of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Discussing with those charged with governance the risks of fraud in the Council, including those risks that are specific to the nature of the Council's activities;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud; and
- ▶ Determining an appropriate strategy to address those identified risks of fraud.

In addition, in our Provisional Audit Planning Report we reported that we would perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments made in the preparation of the financial statements, consideration of whether accounting estimates are free from material bias and a review for unusual transactions.

We identified the inappropriate capitalisation of revenue expenditure as a specific fraud risk, our response to which is set out on the following page.

We have performed testing of journal entries and other adjustments made in the preparation of the financial statement.

We have however only been able to consider whether accounting estimates are free from material bias in relation to those accounting estimates where we have been able to complete our audit procedures. Similarly, we have only been able to perform a review for unusual transactions where we have been able to complete our audit procedures over the underlying transactions. See Appendix A for a summary of the assurances we have gained from our 2023/24 audit procedures.

Areas of Audit Focus

Inappropriate capitalisation of revenue expenditure

Inappropriate capitalisation of revenue expenditure

▲ Significant Risk

▲ Fraud Risk

What is the risk, and the key judgements and estimates?

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

- ▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger; or
- ▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of overstating Property, Plant and Equipment (PPE) additions.

What are our conclusions?

We have been able to complete our audit procedures to respond to the risk of inappropriate capitalisation of revenue expenditure.

We have no observations to report from these procedures.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of inappropriate capitalisation of revenue expenditure by:

- ▶ Testing Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature;
- ▶ Assessing whether the capitalised spend clearly enhances or extends the useful life of the asset rather than simply repairing or maintaining the asset on which it is incurred;
- ▶ Considered whether any development or other related costs that have been capitalised are reasonable to capitalise (i.e. the costs incurred are directly attributable to bringing the asset into operational use); and
- ▶ Seeking to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Areas of Audit Focus

Valuation of land and buildings valued under the DRC and EUV methods

Valuation of land and buildings valued under the depreciated replacement cost (DRC) method and the existing use value (EUV) method

▲ Significant Risk

What is the risk, and the key judgements and estimates?

We have disaggregated land and building assets to identify those where we think the significant risk lies. We have associated the risk to those assets that are valued using the DRC and EUV valuation methods.

These valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, which trigger the use of experts by both management and EY.

These estimates heighten the risk of material error.

What are our conclusions?

Management have agreed to amend the financial statements to correct a £17.3 million overstatement of Ruislip Golf Course.

Understatement of £0.6 million in the updated valuation of this asset, coupled with other identified misstatements totalling an overstatement of £2.1 million, mean assets subject to revaluation in 2023/24 are overstated by £1.5 million. This is not a material misstatement and we are therefore able to conclude that such valuations are materially correct.

Due to the fact we do not have opening balances assurance in relation to assets not revalued in 2023/24, we are not able to conclude whether land and buildings as a whole are free of material misstatement.

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Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatements within the valuations of land and buildings valued under the depreciated replacement cost (DRC) and existing use value (EUV) methods by:

- ▶ Understanding the Council's approach to valuing DRC and EUV assets;
- ▶ Determining the impact of revaluations on the financial statements;
- ▶ Considering the use of management's specialists - the external valuers - including the scope of work and the professional competencies of the specialist;
- ▶ Challenging the assumptions made by management and their specialists, with input from EY Real Estates (our specialists);
- ▶ Sample testing key asset information used by management's specialists, including considering if there are any specific changes to assets and whether they have been appropriately communicated;
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within a 5-year rolling programme as required by the CIPFA Code;
- ▶ Reviewing assets not subject to valuation in 2023/24 to assess that the remaining asset base is not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuations; and
- ▶ Testing that accounting entries have been correctly processed in the financial statements.

We have challenged management on the appropriateness of valuations, in particular in relation to Ruislip Golf Course where multiple incorrect valuations were provided for audit as:

1. The initial valuation was incorrectly stated as £18.2 million by the valuer, as the valuation of a different asset was incorrectly provided and this was not identified by the Council;
2. A revised valuation subsequently provided of £3.1 million was not appropriate as it did not take into account the part-disposal of the asset during the year; and
3. The final valuation of £0.9 million is, in our view, now understated by £0.7 million as the rateable value of the site for business rates was incorrectly used as proxy for market rent.

Areas of Audit Focus

Derecognition of infrastructure assets upon subsequent expenditure/ replacement

Derecognition of infrastructure assets upon subsequent expenditure/ replacement

What is the risk, and the key judgements and estimates?

The CIPFA Code incorporates a temporary relief for certain reporting on infrastructure assets, which can be applied from the 2021/22 Code up to and including the 2024/25 Code. The Council applied this relief in 2021/22, and although we did not report any findings in this respect and downgraded the risk in 2023/24, we do consider that there is a remaining inherent risk as this is an issue that the Council needs to remain focussed to ensure proper arrangements are in place when the temporary relief is discontinued.

What are our conclusions?

We are content that infrastructure assets are accounted for correctly in accordance with the temporary relief for infrastructure asset accounting effective in the CIPFA Code for 2023/24.

In addition, we have tested movements in infrastructure assets which occurred in 2022/23 and are therefore able to conclude that infrastructure assets as at 31 March 2024 are free from material misstatement in the context of the Council applying the temporary relief for infrastructure asset accounting.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatements in relation to the derecognition of infrastructure assets upon subsequent expenditure or replacement by:

- ▶ Ensuring the Council has continued to apply the procedures required by the Code, including considering the appropriateness of the useful lives applied to infrastructure assets; and
- ▶ Reviewing the Council's disclosures in relation to infrastructure assets.

In addition, within our Provisional Audit Planning Report we reported that we would also perform the following procedures:

- ▶ Obtain evidence to match the subsequent expenditure to the carrying amount of the replaced component that is being derecognised; and
- ▶ If the carrying amount of the replaced component can't be identified, we will test the Council's use of the cost of the replacement as a proxy for the deemed carrying amount of the replaced component, ensuring the calculation appropriately adjusts the cost for depreciation and impairment.

The Council has chosen to apply the option permitted under The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 to determine that the carrying amount to be derecognised when replacing a component of infrastructure assets is £nil. The Council has not therefore recorded any derecognitions in relation to its £11.1 million of additions to infrastructure assets during the period.

We note that the Council has chosen to apply this option as it lacks the information necessary to determine a more appropriate derecognition, in line with the Council's basis for applying the temporary relief available under the CIPFA Code.

It remains imperative that the Council continues to both review what information it holds for existing assets in other forms, for example within the highways team, and how this can be used to disaggregate existing accounting records, and how it records its expenditure on infrastructure assets, in particular to allow it to separately identify individual assets within its accounting records, so that it has better information on which to base its reporting when the temporary infrastructure relief comes to an end.

Areas of Audit Focus

Pension liability and the IAS 19 valuations

Pension liability and the IAS 19 valuations

What is the risk, and the key judgements and estimates?

The Council's pension fund deficit is a material estimated balance and the CIPFA Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2023 this totalled £261 million (unaudited).

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

What are our conclusions?

We have been able to complete our audit procedures to respond to the risk of misstatement within pension balances.

We have no observations to report from these procedures.

In addition, we have tested movements in pension balances which occurred in 2022/23 and are therefore able to conclude that pension balances as at 31 March 2024 are free from material misstatement.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatement within pension balances by:

- ▶ Liaising with the EY audit team of the Hillingdon Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;
- ▶ Assessing the work of the Pension Fund actuary, including the assumptions they have used by relying on the work of PWC as consulting actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team;
- ▶ Evaluating the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's models;
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19; and
- ▶ Considering outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of Pension Fund assets, to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

As reported in 2021/22 (we did not perform audit work over pension balances in 2022/23), the Council's actuary has not made any allowance for the potential impact of the 'Goodwin v Secretary of State for Education' tribunal ruling on the Local Government Pension Scheme on the grounds of materiality. We estimate that the application of this case's findings would increase pension liabilities by £1.9 million.

We have no other observations to report from these procedures.

Areas of Audit Focus

Valuation of council dwellings

Valuation of council dwellings

What is the risk, and the key judgements and estimates?

The carrying amount of Council dwellings represents a significant balance in the Council's accounts and is subject to revaluation changes on an annual basis. Management is required to make material judgmental inputs and apply estimation techniques to calculate the year end balances recorded in the balance sheet.

What are our conclusions?

We have identified a £2.1 million overstatement of council dwellings as a result of the social housing discount factor not being applied to properties acquired during 2023/24, which management have advised will be corrected in the final financial statements.

We have no other observations to report from our procedures.

In addition, we have tested movements in council dwelling valuations which occurred in 2022/23 and are therefore able to conclude that council dwellings at 31 March 2024 are free from material misstatement.

Our response to the key areas of challenge and professional judgement

We have responded to the risk of misstatement within the valuation of council dwellings by:

- ▶ Considering the use of management's specialists - the external valuers - including the scope of work and the professional competencies of the specialists;
- ▶ Sample testing the key asset information used by the specialists in performing their valuations (e.g. the nature and number of beacons, valuations of units within beacons);
- ▶ Considering if there are any specific changes to assets/beacons that have occurred and that these have been communicated to the valuer;
- ▶ Considering the appropriateness of management's consideration of estimation uncertainty;
- ▶ Testing that accounting entries have been correctly processed in the financial statements; and
- ▶ Checking whether additions are valued using the social housing discount factor in the same year that they are capitalised.

We identified a small number of properties acquired during 2023/24 where the Council has not applied the social housing discount factor and has valued the assets at full market value, contrary to the required treatment of council dwellings. As a result, council dwellings are overstated by £2.1 million. Management advised that the Council's final financial statements will include correction of this observation.

We have no other observations to report from these procedures.

Areas of Audit Focus

IFRS 16

IFRS 16

What is the risk, and the key judgements and estimates?

Mandatory implementation of IFRS 16 Leases has been deferred until 2024/25 (though voluntary adoption is permitted and encouraged). IFRS 16 leases is a complex standard that will require a substantial amount of data gathering followed by a number of policy choice decisions.

Impact assessment disclosures will need to be made in the 2023/24 financial statements and the Council will need to ensure that it is prepared for the implementation of this standard.

What are our conclusions?

The Council is not as progressed in its readiness for implementation of IFRS 16 as we would have expected at this stage.

The Council's financial statements disclose that the Council does not expect the new standard to have a material impact upon its financial statements, however the greatest risk lies in the completeness of balances to be recognised.

We will consider this further as part of the 2024/25 audit.

Our response to the key areas of challenge and professional judgement

We have considered the Council's preparations for the implementation of IFRS 16 by:

- ▶ Understanding the Council's process for implementing the new leases standard; and
- ▶ Assessing the readiness of the Council for implementation of this major standard.

Our initial enquiries into the Council's readiness for adoption of IFRS 16 demonstrated that the Council was still in the 'data collection' phase of preparations for IFRS 16 and not as progressed in its readiness for the new standard as we would have expected. This area was therefore one of the first to be deprioritised and more detailed work on the Council's preparations for IFRS 16, including consideration of the disclosures made within the 2023/24 financial statements, have not been performed.



03 Value for Money

Value for Money

The Authority'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 Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the NAO Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and status of our work

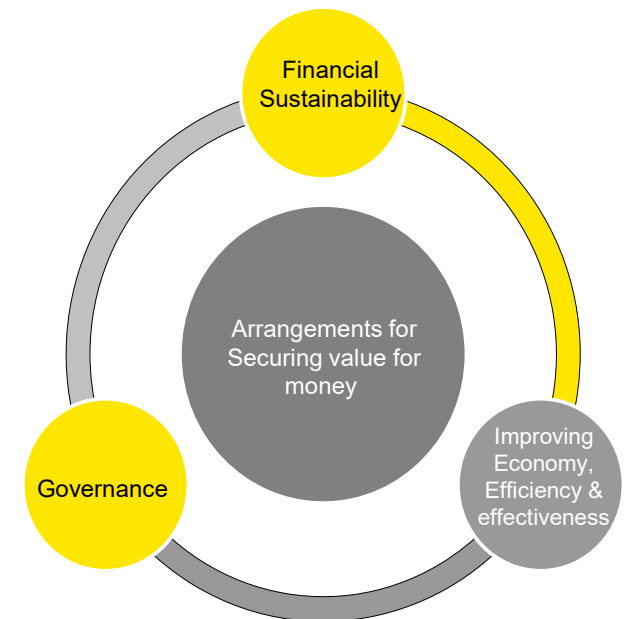
We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, and to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

- ▶ **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.

We have completed our detailed VFM work and identified two risks of significant weakness as documented on the next page.



Value for Money

Risks of significant weakness in VFM arrangements

What is the risk of significant weakness?

Financial Sustainability

The Council has seen a reduction in its available reserves, and growth of its Dedicated Schools Grant (DSG) deficit, over recent years and was only able to report a balanced outturn for 2023/24 due to the application of two significant one-off accounting adjustments.

There is therefore a risk that the Council does not have proper arrangements in place to manage risks to its financial resilience.

What arrangements did this impact?

Financial Sustainability:

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans.

What did we do?

Our approach focused on:

- ▶ Assessing the financial resilience of the Council against external benchmarks;
- ▶ Reviewing the Council's financial outturn and management against budget for 2023-24;
- ▶ Reviewing the Council's financial projections and plans for the period 2024-25 to 2028-29;
- ▶ Reviewing the Council's year-to-date performance against budget in 2024-25 (as indicative of the accuracy of forecasts prepared during 2023-24); and
- ▶ Concluding on whether the above indicates that a significant weakness in the Council's arrangements exists.

Quality of Council Information

(inc. impact on ability to support the external audit)

As highlighted in Section 1, we have encountered difficulty in performing our audit procedures due to a combination of poor quality working papers and supporting information being provided by the Council and capacity limitations within the Council's finance team. The Council's internal auditor has also raised concerns over the quality of the Council's information and the impact of this upon the Council.

There is therefore a risk that the Council does not have proper arrangements in place to ensure it takes properly informed decisions and supports challenge and transparency.

Governance:

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

We obtained sufficient evidence on which to base a conclusion in relation to this risk through a combination of:

- ▶ Our value for money risk assessment procedures, including review of the reports of internal audit; and
- ▶ Our observations during the delivery of our planned audit procedures in relation to the financial statements.

We did not therefore plan and execute additional specific procedures to respond to this risk.

Value for Money

Our VFM conclusions

We have concluded that:

- ▶ The Council does not have proper arrangements in place to identify and manage risks to its financial resilience. We have reached this conclusion based on a number of factors, including:
 - The Council would have reported a significant overspend of £16.6 million (6.3% of the Council's net budget) for 2023/24 had it not been for two one-off accounting adjustments. These adjustments are unlikely to be available in future periods;
 - The reserves of the Council identified by management as available to support Council spending decreased by 25% between 31 March 2023 and 31 March 2024;
 - The cumulative deficit on the Council's Dedicated Schools Grant (DSG) increased by £25.6 million between 31 March 2023 and 31 March 2024, and at £47.5 million now exceeds the available reserves of the Council; and
 - As of the mid-point of 2024/25, the Council is forecasting significant overspends for 2024/25 which we consider indicative that the Council did not fully understand and / or mitigate the scale of demand and inflationary pressures it faces when setting its Medium Term Financial Forecast for the period 2024/25 to 2028/29 during 2023/24.
- ▶ The Council does not have proper arrangements in place to ensure it takes properly informed decisions and supports challenge and transparency. We have reached this conclusion based on a number of factors including:
 - The fact the Council was not able to meet the statutory deadline for commencement of the public inspection period of its draft financial statements, and when it did so the documentation published by the Council did not comply with the requirements of the Accounts and Audit Regulations as the Council did not publish its Annual Governance Statement alongside the draft financial statements;
 - Observations from the Council's internal auditor that "poor data quality, reliance on manual records and reliance on outdated systems that are no longer fit for purpose also impacted on the quality of documentation and performance data available" was a contributing factor to the overall level of assurance offered by the Head of Internal Audit in their annual opinion for 2023/24 being only 'Limited'; and
 - The significant difficulties encountered in the delivery of the Council's external audit for 2023/24, including poor quality working papers and supporting information being provided by the Council.

A copy of our proposed VFM narrative commentary, including further observations in relation to the above weaknesses in the Council's arrangements and our associated recommendations, is included in Appendix G. We will issue our final VFM narrative commentary in our 2023/24 Auditor's Annual Report which we expect to issue in March 2025.

We have only recently shared our recommendations with management therefore management responses to our recommendations will also be included within the Auditor's Annual Report, to ensure that management are provided time to properly consider our recommendations. If we are not satisfied with the Council's response to our recommendations, or the implementation of that response, we will consider exercising our further powers by making formal statutory recommendations.

Value for Money

The Council's position

Officers have advised that the Council recognises the scale of the financial challenges faced by the organisation and has taken a number of steps since the end of the period covered by our value for money commentary to respond to them, including:

- ▶ Engagement of external support to assist with Council-wide development of zero-based budgets and the identification of efficiencies;
- ▶ The introduction of senior officer star chambers, focused on each area of service delivery and cross-service thematic sessions to review the Council's operations;
- ▶ Performing a review for optimism bias in Council forecasts and taking steps to remove such bias where identified;
- ▶ Implementing improvements to the Council's financial governance processes to improve reporting and accountability; and
- ▶ Implementing a Finance Improvement Programme with external support from the Chartered Institute of Public Finance and Accountancy.

These actions form part of the Council's arrangements for the year ended 31 March 2025 and are therefore outside of the scope of our value for money assessment for the current period and we have not corroborated management's assertions. We will consider the actions the Council has taken during the year ended 31 March 2025 as part of our value for money work for the Council's 2024/25 external audit.



04

Audit Report

Audit Report

Expected modification to the audit report

As reported in our November 2024 Audit Completion Report to Those Charged with Governance, we issued a disclaimed audit report on the Authority's 2022/23 financial statements under the Government's legislative arrangements to reset and recover local government audit (Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" and Local Authority Reset and Recovery Implementation Guidance). The reasons for the 2022/23 disclaimed audit report were set out in the aforementioned 2022/23 Audit Completion Report.

As a result of the 2022/23 disclaimed audit report we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we also do not have assurance over a number of 2023/24 in-year movements that depend on those opening balances, and therefore some closing balances (particularly reserves). We also do not have assurance over the 2022/23 comparative amounts disclosed within the 2023/24 financial statements. We did not plan to rebuild this assurance in our 2023/24 audit.

As set out within Section 1 of this report, we have not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over all closing balances. As we have explained, the Council has not provided good quality working papers or sufficient and appropriate evidence to support your financial transactions in accordance with agreed timescales.

There is now insufficient audit resource available to complete the above outstanding procedures on your audit before the 2023/24 backstop date. Insufficient support to the audit meaning that it takes significantly longer than should be necessary is one example of the factors that led to the backlog in the first place, and why the legislative backstop has been introduced.

Taken together, and alongside the requirement to conclude the 2023/24 audit by the legislative backstop date of the 28 February 2025, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion. The extent of the disclaimed audit report will include the additional areas of the 2023/24 financial statements where we have not been able to gain sufficient assurance, over and above those we set out in our 2022/23 disclaimed audit opinion.

Appendix A of this report sets out the level of assurance we have been able to gain from the procedures that we have completed.

In line with the Government's legislative arrangements set out above and specifically the 'recovery phase' of those arrangements and with guidance issued by the Financial Reporting Council (FRC) within their 'Accessible Guide' there is an expected minimum 3-year timeline to re-build audit assurances to gain full assurance over opening balances, closing balances and in-year movements. We will reflect on the impact of the areas where we did not gain our planned assurances in 2023/24 through our 2024/25 audit planning and set out our timeline for re-building audit assurance within our Audit Plan.



05 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £0.8 million which have management have advised will be corrected in the final financial statements:

- ▶ The valuation of Ruislip Golf Course was overstated by £16.6 million due to the valuation of a different asset being incorrectly provided as the valuation of Ruislip Golf Course by the Council's external valuer, and the Council not identifying this error. The Council's adjustment to the financial statements totals £17.3 million, however we consider the revised valuation to be understated and report the difference of £0.7 million as an uncorrected misstatement;
- ▶ The valuation of council dwellings was overstated by £2.1 million due to the Council not applying the social housing discount factor to a small number of properties acquired during 2023/24 and incorrectly measuring them at full market value; and
- ▶ The Council has not been able to provide evidence of the gross internal area used to inform the valuation of Cobham Manor School, and the floor area used exceeds guidance issued by the Department for Education on the area for a modern equivalent school. We have therefore calculated the expected valuation using the capacity of the school and the guidance issued by the Department for Education, and based on this recalculation consider the valuation to be overstated by £1.7 million.

At the time of submitting this report we have not yet received updated financial statements from management to enable confirmation that the above corrections have been made correctly.

In addition, within our audit report on the 2022/23 financial statements we reported that the 2022/23 financial statements included property, plant and equipment belonging to two schools which converted to academy status during the year ended 31 March 2022. These assets should have been derecognised by the Council at the point the schools converted to academy status, therefore property, plant and equipment at 31 March 2023 was overstated by £28.5 million. Within the 2023/24 financial statements, the opening balances for property, plant and equipment have been amended to present what would have been the opening position had these assets been correctly derecognised prior to 31 March 2023. As explained in Sections 1 and 4, as a result of the disclaimed audit report on the 2022/23 financial statements we do not have assurance over opening balances for 2023/24 and do not offer a conclusion on whether opening balances are correctly stated within the 2023/24 financial statements.

Audit Differences

Summary of unadjusted differences

In addition, we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We ask that the Audit Committee request of management that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2024 (£'000)	Effect on the current period:		Net assets Increase/(decrease)			
	OCI	Income statement	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities
	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
Known differences:						
▶ The valuation of the Council's investment in Hillingdon First Limited is overstated as it is based on an assessment of the company as at 31 March 2023 not as at 31 March 2024.		2,550		(2,550)		
▶ Our testing of payments made after the year-end identified two payments which related to 2023/24 but had not been recorded within the 2023/24 financial statements.		2,140			(2,140)	
Judgemental differences:						
▶ Our testing of receipts in advance identified a number of grants with no conditions attached which should have been recognised in income at the point of receipt.		(2,911)			2,911	
▶ Our testing of debtors identified an amount of £22,400 which was received prior to 31 March 2024 and therefore shouldn't be recorded as a debtor. Our extrapolation of this finding estimated an overstatement of the population of £2.2 million.		2,159	(2,159)			
▶ The Council has not made allowance for the impact of the 'Goodwin' legal case in the valuation of pension liabilities (see section 2)	1,872					(1,872)
Total	1,872	3,938	(2,159)	(2,550)	771	(1,872)

Audit Differences

Other observations

As set out in Section 1, we have not been able to complete all of our planned audit procedures. As a result, we have not obtained the assurances required to enable us to conclude that the financial statements are free of material misstatement and there is an increased risk that additional misstatements to those reported on the previous pages may exist within the financial statement.

In the performance of our audit procedures we have identified the following matters which indicate that a misstatement is likely to exist but we have not been able to complete the procedures necessary to confirm the existence of misstatement and/or determine the size of the misstatement:

- ▶ Our testing of payables identified a balance of £12,000 which relates to activity in 2024/25 and should not therefore have been recognised within the 2023/24 financial statements. Our sample size for this testing was small and the extrapolation of this finding estimates an overstatement of payables of £19 million. We would ordinarily perform additional testing of the population to provide more information on the most likely level of error within the population, however for the reasons set out in Section 1 we have not been able to complete these procedures.
- ▶ Our testing of payables also identified accrued balances in relation to payments to landlords for temporary accommodation which related to periods for which the window for landlords to seek payment has ended, in some cases several years ago. We have identified a population of £2.6 million of such accruals, of which preliminary analysis indicated £1.5 million may be incorrectly recognised, however we have not been able to complete the procedures necessary to confirm the level of error within this population.
- ▶ The Council's borrowings include an effective interest rate (EIR) adjustment of £9.4 million in relation to one specific loan from the Public Works Loan Board which reduces the £18.6 million principal loan value down to a recognised liability of £9.2 million. Whilst the Council has been able to provide workings to support the calculation of this balance, it has not been able to support the basis for why this adjustment is appropriate. Further explanations and support for the adjustment have been requested from the Council however for the reasons set out in Section 1 we have not been able to complete these enquiries. Appropriate explanation for this adjustment will be requested as part of the 2024/25 audit, and we will conclude on the balance as unsupported (i.e. a misstatement) if such explanations cannot be satisfactorily provided.



06

Assessment of Control Environment




Assessment of Control Environment

Financial controls

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.

The following pages detail the 'high', 'moderate' and 'low' rated observations we have from the audit. The matters reported on are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you. We use the following key when rating our observations:

Key:

-  A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
-  Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
-  Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

We have only recently shared our recommendations with management therefore management responses to our recommendations will also be included within the Final Audit Results Report, to ensure that management are provided time to properly consider our recommendations.

In addition, we have made recommendations to the Council as part of our value for money work. These recommendations can be found within our value for money commentary at Appendix G.

Assessment of Control Environment



Area	Exercise of the public inspection period	Rating	
Observation	<p>As reported in Section 1, the Council did not meet the statutory deadline for commencement of the public inspection period of its draft financial statements, and the inspection period it did run did not meet the requirements of the Accounts and Audit Regulations 2015.</p> <p>As a result of the inspection period having to be re-ran, the Council will not meet the statutory backstop date for publication of its final 2023/24 financial statements.</p>		
Recommendation	<p>We recommend that the Council ensures that it fully understands the requirements for the public inspection period as set out within the Accounts and Audit Regulations 2015, and ensures that it has processes in place to meet these requirements.</p>		
Management comment			

Area	Implementation of IFRS 16	Rating	
Observation	<p>Our initial enquiries into the Council's readiness for adoption of IFRS 16 demonstrated that the Council was still in the 'data collection' phase of preparations for IFRS 16 and not as progressed in its readiness for the new standard as we would have expected.</p> <p>The main risk in adopting the new standard is incompleteness in the Council's identification of its leases.</p>		
Recommendation	<p>We recommend that the Council reassesses its implementation plan for IFRS 16 to ensure that all appropriate leases will have been identified, assessed and recorded in accordance with the new standard in time for inclusion within the Council's draft 2024/25 financial statements.</p>		
Management comment			

Assessment of Control Environment



Area	Provisions for impairment of non-domestic rates debtors	Rating	
Observation	<p>Impairment percentages used within the calculation of the impairment of non-domestic rates debtors were not updated for 2023/24 and the Council has not been able to evidence that previously applied rates remain appropriate.</p> <p>In addition, we noted that these rates are applied to the Council's net debtor (i.e. debtors less advance payments) which is not appropriate as impairment should be made on the gross debtor balances.</p>		
Recommendation	<p>We recommend that the Council reviews its calculation of the non-domestic rates impairment to ensure that it can fully support the impairment rates applied and is applying those rates to an appropriate gross balance.</p>		
Management comment			

Area	Assessment of funding grant terms	Rating	
Observation	<p>Our testing of grants received and held on the balance sheet as deferred income found a significant proportion had no associated performance conditions and should therefore have been released to income when received.</p>		
Recommendation	<p>We recommend that management review the process by which grants received are assessed for performance related conditions and ensures that amounts are released to revenue at the correct point in time.</p>		
Management comment			

Assessment of Control Environment

Area: Access to information held by schools

Rating:

Observation

We were unable to complete our review of the disclosures of individuals earning more than £50,000 as the Council was unable to provide us with individual-level payroll information for maintained schools.

We also encountered difficulty performing other audit procedures which required information principally held by schools.

Recommendation

We recommend that the Council reviews the processes through which it collates information from maintained schools to ensure that information necessary to support financial statements disclosures is available to the Council, and can be provided for audit.

Management comment

Area: Review of externally provided asset valuations

Rating:

Observation

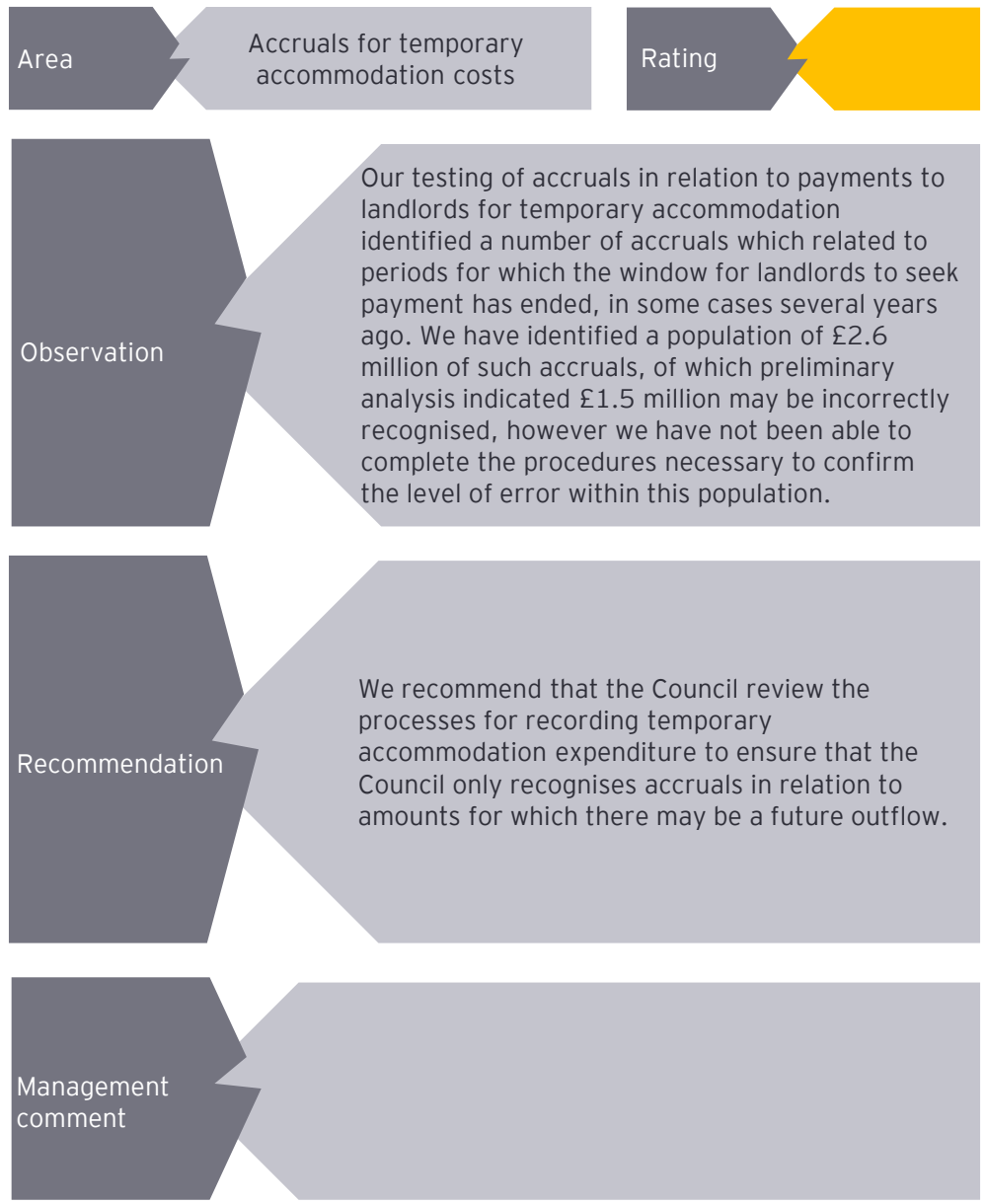
Our testing of Ruislip Golf Course identified two separate incorrect valuations provided to the Council, one which was materially overstated due to a clerical error by the valuer and one where the valuer had not taken into account a part-disposal of the asset during the year. Neither error was identified by the Council, with the former coming after we had already requested the Council obtain a revised valuation due to concerns over the original valuation.

Recommendation

We recommend that the Council review its processes to ensure that relevant changes in assets are communicated to its external valuer, and that the valuations provided by the external valuer are subject to appropriate review by the Council, including for consistency with the Council's knowledge of its assets, prior to inclusion within the financial statements.

Management comment

Assessment of Control Environment





07

Other Reporting Issues

Other Reporting Issues

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

We would ordinarily be required to give an opinion on the consistency of the financial and non-financial information in the London Borough of Hillingdon Statement of Accounts 2023/24 with the audited financial statements.

We would also ordinarily be required to review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

As explained within Section 1, we anticipate issuing a disclaimed 2023/24 audit opinion. A disclaimed opinion does not include reporting on the consistency of the other information with the audited financial statements, therefore we have not completed our review of the other information and have focused our audit effort on maximising the assurance obtained over the financial statements. We therefore offer no observations on the consistency of the other information with the financial statements.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We would expect that the final Annual Governance Statement is updated to reflect the observations highlighted in Section 3 of this report, but otherwise have no matters to report as a result of this work.

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.

The National Audit Office have not yet issued instructions to us on the extent of procedures required in relation to the Council's 2023/24 Whole of Government Accounts return, therefore we have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We cannot issue our Audit Certificate until these procedures are complete.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (the Act) 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"). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State,

We did not identify any issues which required us to issue a report in the public interest or to issue statutory recommendations under Schedule 7.

Other Reporting Issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the 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; and
- ▶ Group audits

We set out in Section 1 the significant difficulties encountered during the audit and expected modifications to the audit report. We have no other matters to report.

Other Reporting Issues

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 was effective from 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- ▶ Risk Assessment;
- ▶ Understanding the entity's internal control;
- ▶ Significant risk; and
- ▶ Approach to addressing significant risk (in combination with ISA 330)

Given that we have disclaimed the 2022/23 audit of the Council's financial statements we have undertaken ISA (UK) 315 (Revised) procedures for the first time in 2023/24.

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- ▶ Drive consistent and effective identification and assessment of risks of material misstatement;
- ▶ Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability');
- ▶ Modernise ISA 315 to meet evolving business needs, including:
 - ▶ how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
 - ▶ how auditors understand the entity's use of information technology relevant to financial reporting; and
- ▶ Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

Our planned procedures to be performed in relation to ISA 315 (Revised) included:

- ▶ Obtaining an understanding of the IT processes related to the IT applications of the Council;
- ▶ Performing procedures to determine if there are typical controls missing or control deficiencies identified, and evaluating the consequences for our audit strategy; and
- ▶ When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, performing additional procedures.

For the reasons set out in Section 1, we have not been able to complete the above procedures for 2023/24.



08 Independence

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your body, and its directors and senior management and its affiliates, including all services provided by us and our network to your body, 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 our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

Relationships

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by EY

There are no services provided by EY from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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

Confirmations

We are not aware of any inconsistencies between the Council's policy for the supply of non-audit services and the FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, EY is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers, managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

EY Transparency Report 2024

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 period ended 28 June 2024 and can be found here: [EY UK 2024 Transparency Report | EY - UK](#).

Independence

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As set out in our Provisional Audit Planning Report the agreed fee presented was based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statements opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council;
- ▶ The Council has an effective control environment; and
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities (see Appendix F)

If any of the above assumptions prove to be unfounded, we seek a variation to the agreed fee. Details of our proposed scale fee variations for the audit of the Council are set out in the fee analysis on this page.

	Current Year	Scale Fee	Prior Year
	£	£	£
Scale fee - Council	403,723	403,723	142,846
Scale fee - Pension Fund	81,688	81,688	24,954
Scale fee variation - Council (1) (2)	TBC	N/A	TBC
Scale fee variation - Pension Fund (3) (4)	5,000	N/A	TBC
IAS 19 Procedure Fees - Pension Fund (5)	N/A	N/A	8,700
Total audit fees	TBC	485,411	TBC
Non-audit work - Housing Benefit certification (6)	TBC	N/A	TBC
Non-audit work - Teachers' Pension certification (7)	N/A	N/A	9,500
Non-audit work - Housing Capital Receipts certification (7)	N/A	N/A	15,500
Total non-audit services fees	TBC	-	TBC
Total fees	TBC	485,411	TBC

Notes overleaf

Independence

Notes

- (1) As highlighted within this report, we have encountered difficulty in performing our audit procedures due to a combination of poor quality working papers and supporting information being provided by the Council and capacity limitations within the Council's finance team. The audit resources expended in seeking to maximise the assurance obtained in light of these difficulties has exceeded the effort with which we would have expected to be able to complete your audit. We will set out our assessment of the impact of this additional effort on our audit fees for management and make submission to PSAA for a variation to the scale fee.
- (2) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by MHCLG and the FRC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2022/23 audit. In doing so, PSAA will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.
- (3) Our audit of the Pension Fund identified a number of in-year risks which required additional audit effort. In addition, the application of ISA 315 (Revised) as explained in Section 7, and the associated audit effort, was not factored into the scale fee determined by PSAA. We have proposed additional fees of £5,000 to management in relation to the 2023/24 audit of the Pension Fund to reflect this additional effort.
- (4) The scale fee variation for the 2022/23 audit of the Pension Fund is subject to determination by PSAA. As previously reported in the separate 2022/23 Audit Results Report for the audit of the Pension Fund, the amount we have requested from PSAA includes £8,874 in relation to changes in work required to address professional and regulatory requirements and scope associated with risk and an amount in the range £20,000 to £30,000 in relation to additional audit procedures necessary to respond to specific audit findings during the delivery of the audit.
- (5) Effective from 2023/24, audit fees for the performance of IAS 19 procedures which were previously subject to separate agreement are incorporated into the PSAA scale fee. No separate amount is therefore reported for this work in 2023/24.
- (6) Our work in relation to the Council's 2022/23 Housing Benefit return is just concluding and we expect to issue our report between the issuance of this report and the date of the Audit Committee. The final fees for this work will be agreed prior to issuing our report. We have also agreed to perform the assurance work in relation to the Council's 2023/24 Housing Benefit return, and our fees will depend upon the results of our testing and whether additional testing is required in-line with the guidance issued by the Department for Work and Pensions.
- (7) We have agreed with the Council that we will not provide assurance work in relation to the Council's submission to Teachers' Pension or its Pooling of Housing Capital Receipts returns for 2023/24.



10 Appendices

Appendix A – Summary of Assurances





Summary of assurances

As we have set out in Sections 1 and 4 of this report, we anticipate issuing a disclaimer of opinion on the 2023/24 financial statements. Due to the disclaimer of opinion issued on the 2022/23 financial statements, we do not have assurance over the comparative figures disclosed in the financial statements, the opening balance position on 1 April 2023, the closing reserves balances on 31 March 2024 or the in-year movements recorded in the Comprehensive Income and Expenditure Statement. This is considered material and pervasive to the 2023/24 financial statements.

In addition, we have encountered difficulty in performing our audit procedures due to a combination of poor quality working papers and supporting information being provided by the Council and capacity limitations within the Council's finance team. Due to the implementation of the backstop date of 28 February 2025 for the completion of the audit, we agreed with management that both Council and audit resources would be prioritised on those account areas which contribute the most towards the rebuilding of assurance following the disclaimed 2022/23 audit report. Consequently, we have not been able to complete all of our planned procedures and have not obtained sufficient assurance to enable conclusion, notwithstanding the lack of assurance over the brought forward balances from 2022/23, to enable conclusion on whether the Council's 2023/24 financial statements are free from material misstatement.

The table overleaf summarises the audit work we have completed on the 2023/24 financial statements to demonstrate to the Audit Committee the level of assurance that has been obtained as a result of the financial statements audit, using the key below. We do not provide a separate opinion on these matters as the assurance we have gained is in the context of our audit of the financial statements as a whole, and our disclaimer of opinion on those financial statements

Key:

-  We have been able to complete our audit procedures and obtain assurances over the relevant account or disclosure.
-  We have been able to complete our audit procedures and obtain assurances over the relevant account or disclosure, however our internal review procedures remain ongoing. Due to the implementation of the backstop date of 28 February 2025 for the completion of the audit, if our review procedures raise matters which require further information or explanations from the Council further work will not be performed and we will conclude that assurance has not been obtained over the relevant account or disclosure.
-  We have completed some procedures and obtained some assurances over the relevant account or disclosure, however either due to not being able to complete other procedures or the impact of not having assurance over opening balances we have not obtained assurance over the relevant account or disclosure as a whole.
-  We have not been able to complete our procedures and no assurance over the relevant account or disclosure has been obtained.

Appendix A – Summary of Assurances

Account area	Assurance rating	Summary of work performed
Property, plant and equipment - additions and disposals		Subject to our internal review procedures, we have completed our planned audit procedures in this area including testing of additions and disposals which occurred during 2022/23. This supports the conclusions below in relation to property, plant and equipment balances at 31 March 2024.
Property, plant and equipment - council dwellings		Subject to our internal review procedures, we have completed our planned audit procedures in this area, including over movements which occurred in 2022/23, and have obtained assurance over the closing balance at 31 March 2024.
Property, plant and equipment - land and buildings		Subject to our internal review procedures, we have completed our planned audit procedures in this area, including over movements which occurred in 2022/23, and have obtained assurance over the closing balance at 31 March 2024.
Property, plant and equipment - other balances		Subject to our internal review procedures, we have completed our planned audit procedures in this area, including over movements which occurred in 2022/23, and have obtained assurance over the closing balance at 31 March 2024.
Infrastructure assets		Subject to our internal review procedures, we have completed our planned audit procedures in this area, including over movements which occurred in 2022/23, and have obtained assurance over the closing balance at 31 March 2024.
Investments		We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Debtors		Subject to our internal review procedures, we have completed our planned audit procedures in relation to gross debtor balances. We have not been able to complete our procedures in relation to provisions for impairment of debtors, and have therefore not obtained assurance over the net closing debtors balance at 31 March 2024.
Cash and cash equivalents		Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Creditors - capital grants received in advance		Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.

Appendix A – Summary of Assurances

Account area	Assurance rating	Summary of work performed
Creditors - unrecorded liabilities (completeness)	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Creditors - other	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the closing balance at 31 March 2024.
Borrowings	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024 other than in relation to the immaterial EIR adjustment detailed in section 5. We have not obtained assurance over the split of this balance between current and non-current.
Defined-benefit pensions	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area, including over movements which occurred in 2022/23, and have obtained assurance over the closing balance at 31 March 2024.
Revenue expenditure funded from capital under statute (REFCUS)	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the transactions during 2023/24.
Reserves	Red	We have not been able to complete our work on the movements in reserves in 2023/24. In addition, until we have completed our work programme on the rebuilding of assurance following the disclaimed audit opinions we are unable to obtain assurance over the useable and unusable reserves of the Council reported in the financial statements. We will provide more information on our proposed approach for rebuilding of assurance as part of our 2024/25 audit planning reports.
Taxation and non-specific grant income	Green	We have completed our planned audit procedures in this area and have obtained assurance over the transactions occurring during 2023/24.
Grant income	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2023/24.

Appendix A – Summary of Assurances

Account area	Assurance rating	Summary of work performed
Other income	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2023/24.
Schools income and expenditure	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2023/24.
Housing benefit income and expenditure	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the transactions during 2023/24. We have also obtained assurance over the transactions which occurred during 2022/23.
Financing and investment expenditure	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the transactions during 2023/24.
Employee costs	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2023/24.
Other expenditure	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over the transactions occurring during 2023/24.
Statement of cash flows	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in relation to the draft statement of cash flows. We however note that the Council has made changes to the financial statements and we have not confirmed that these have been correctly implemented in the statement of cash flows.
Housing Revenue Account - income	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the transactions during 2023/24. We have also obtained assurance over the transactions which occurred during 2022/23 which supports assurance over the Council's HRA reserves at 31 March 2024.

Appendix A – Summary of Assurances

Account area	Assurance rating	Summary of work performed
Housing Revenue Account - expenditure	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the transactions during 2023/24. We have also obtained assurance over the transactions which occurred during 2022/23 which supports assurance over the Council's HRA reserves at 31 March 2024.
Collection Fund - income	Green	We have completed our planned audit procedures in this area and have obtained assurance over the transactions during 2023/24. We have also obtained assurance over the transactions which occurred during 2022/23 which supports assurance over the Collection Fund surplus or deficit at 31 March 2024.
Collection Fund - expenditure	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the transactions during 2023/24. We have also obtained assurance over the transactions which occurred during 2022/23 which supports assurance over the Collection Fund surplus or deficit at 31 March 2024.
Journal entries	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over the transactions during 2023/24.
Remuneration disclosures - senior officers' remuneration	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over these disclosures.
Remuneration disclosures - individuals earning >£50k	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over these disclosures.
Remuneration disclosures - exit packages	Yellow	Subject to our internal review procedures, we have completed our planned audit procedures in this area and have obtained assurance over these disclosures.
Remuneration disclosures - members allowances	Green	We have completed our planned audit procedures in this area and have obtained assurance over these disclosures.
Segmental reporting - the expenditure and funding analysis	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over these disclosures.

Appendix A – Summary of Assurances

Account area	Assurance rating	Summary of work performed
Accounting policies	Yellow	We have reviewed the disclosed accounting policies and confirmed they are consistent with the external reporting framework. As we have not completed all of our procedures over the financial statements we are however unable to conclude on whether the accounting policies accurately describe the underlying accounting treatments adopted by the Council.
Going concern	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over these disclosures. We would also highlight observations on the Council's financial standing within our value for money commentary which should be highlighted within the going concern disclosures.
Group boundary assessment	Green	We have completed our planned audit procedures in this area and have obtained assurance over these disclosures.
Related party disclosures	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over these disclosures.
All other disclosures not separately identified	Red	We have not been able to complete our planned audit procedures in this area and have therefore not obtained assurance over these disclosures.

Appendix B – Audit Approach

Audit approach

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

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

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

We have tested each of these assertions substantively for all material balances included in the balance sheet.

Appendix C – Required Communications with the Audit Committee

Required communications with the Audit Committee

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

Required communications	What is reported?	Our Reporting to you
		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.	Provisional Audit Planning Report (April 2024)
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>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.</p>	Provisional Audit Planning Report (April 2024)
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 	Provisional Audit Results Report (February 2025)

Appendix C – Required Communications with the Audit Committee

		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 	Provisional Audit Results Report (February 2025)
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 	Provisional Audit Results Report (February 2025)
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 ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Provisional Audit Results Report (February 2025)

Appendix C – Required Communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <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 	Provisional Audit Results Report (February 2025)
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, integrity, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <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 <p>Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	Provisional Audit Planning Report (April 2024) Provisional Audit Results Report (February 2025)
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 	Provisional Audit Results Report (February 2025)
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Provisional Audit Results Report (February 2025)

Appendix C – Required Communications with the Audit Committee

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work ▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Provisional Audit Planning Report (April 2024) Provisional Audit Results Report (February 2025)
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 	Provisional Audit Results Report (February 2025)
System of quality management	<ul style="list-style-type: none"> ▶ How the system of quality management (SQM) supports the consistent performance of a quality audit 	Provisional Audit Results Report (February 2025)
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 	Provisional Audit Results Report (February 2025)
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor’s report ▶ Any circumstances identified that affect the form and content of our auditor’s report 	Provisional Audit Results Report (February 2025)

Appendix D – Outstanding Matters

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Inspection period	The Council is re-running the accounts inspection period over the period 31 January 2025 to 13 March 2025. We are unable to issue our auditor's report until this period has concluded.	Management
Internal review	We are continuing to work through our internal review and quality assurances procedures.	EY
Finalisation of audit report	The final form of our audit report is still under review as it will need to reflect both the significant weaknesses in the Council's arrangements reported in Section 3 and our basis for disclaiming the audit opinion.	EY
Subsequent events review	Procedures to identify and consider subsequent events should be performed up to the date of signing	Management / EY
Management representations letter	We require receipt of the signed management representations letter before we can conclude our audit.	EY (to prepare) Management / Audit Committee (to sign and return)

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 Statement of Accounts.



Appendix E – Management Representation Letter

Management representation letter

We are finalising the wording of our management representation letter and will share this with management and the Chair of the Audit Committee prior to concluding our audit.

Appendix F – PSAA Statement of Responsibilities

PSAA Statement of Responsibilities

As set out in Section 8 our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- ▶ *prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- ▶ *ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- ▶ *assign responsibilities clearly to staff with the appropriate expertise and experience;*
- ▶ *provide necessary resources to enable delivery of the plan;*
- ▶ *maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- ▶ *ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- ▶ *ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- ▶ *during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

Appendix G – Value for Money Commentary

Value for money commentary

As explained in Section 3, we are required to provide a commentary on the Council's arrangements against the reporting criteria detailed in Section 3. This commentary is presented below:

Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council identifies all the significant financial pressures that are relevant to its medium-term plans through its Medium Term Financial Forecast ('MTFF'), which is the financial plan for the Council and it contains the funding strategy for delivering the Council's objectives for a forward-looking period of five years. This forecast is revisited and extended on an annual basis. Additional MTFFs may be produced mid-year if necessary, however this was not required during 2023/24. This forecast enables emerging risks and issues to be reflected in the Council's financial planning in a timely manner.

The budget setting cycle represents a continuous programme of activity across the financial year. Monthly budget monitoring reports are used to identify and address short term financial pressures. This is the process of comparing actual and forecast expenditure and income throughout the financial year, both through budget monitoring and at the point of committing expenditure. It involves identifying variances, pressures and risks while taking prompt action to prevent budget pressures or to bring pressures that have arisen back under control. Budget managers carry out monitoring of the actual positions while being aware of wider factors that may impact upon the budget position. These monthly reports are reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures.

The Council has recognised that growing demand for council services is increasingly stretching its resources and during 2023/24 began to implement an externally supported zero-based budgeting exercise across the Council. As part of this exercise senior managers, along with budget managers, are reviewing their services in detail to create alternative and improved options for operational delivery. This exercise was ongoing as of the end of 2023/24, with the detailed outputs expected to form the basis for the MTFF for the period 2025/26 to 2029/30 to be prepared during 2024/25.

The Council monitors the financial performance of its schools budget separately from the rest of its budget as associated funding is externally ringfenced. The Council reported a deficit of £25.6 million against its schools budget for 2023/24, driven by rising demand for and costs of high needs placements, significantly exceeding the planned deficit of £2.3 million and the cumulative deficit on the Council's Dedicated Schools Grant (DSG) increased to £47.5 million at 31 March 2024. A statutory override is currently in place allowing the Council to treat its DSG deficit as an unusable reserve, however this is currently due to end in March 2026 and the Council's current financial plans assume the deficit will increase further by that date. The Council's DSG deficit exceeds the available reserves of the Council and, without additional external support, poses a significant risk to the Council's financial viability. The issue of DSG deficits is a challenge across the sector and the Council submitted an updated DSG Management Plan to the Department for Education (DfE) in December 2023 as part of the DfE's Safety Valve programme.

How the body plans to bridge its funding gaps and identifies achievable savings

The Council seeks to achieve balanced budgets through delivering efficiency savings, increases in Council Tax and increases to the fees it charges the users of Council services. The Council seeks to identify deliverable savings through a combination of measures, including:

Appendix G – Value for Money Commentary

Value for money commentary

- ▶ Redesign of the end-to-end delivery of business processes, including greater use of digital channels for customer interactions, greater automation within back-office functions and the implementation of more efficient ways of working;
- ▶ The modernisation and reshaping of service delivery models, including greater use of integrated service hubs and greater efficiency in the delivery of services;
- ▶ The streamlining and refocussing of Council management structures and the associated staffing structures through Business Improvement District ('BID') reviews; and
- ▶ Maximising the use of Council assets, including sale of surplus assets, strategic review of the capital programme and regular reviews of the Council's financing requirements.

The Council's budget for 2023/24 incorporated £22.8 million of assumed savings, including £1.6 million of savings deferred from 2022/23. The Council has reported that £17 million (75%) of these savings were achieved, £0.9 million (4%) are considered to be on-track for delivery, £0.7 million (3%) to be behind schedule but still achievable and £4.2 million (18%) to be either unachievable or facing potential problems in delivery.

The Council's MTFF for the period 2024/25 to 2028/29 includes identified savings of £33.4 million, of which £15.8 million are to be delivered during 2024/25, and a remaining budget gap which will need to be met through further savings or reductions in services of £53 million (including planned contributions of £7.5 million towards rebuilding reserves). Whilst it is not uncommon for budget gaps beyond a 12-24 month horizon to be addressed in future budgets, the scale of the gap to be closed by the Council is significant with planned savings and the unbridged gap in aggregate equating to 5.6% of planned expenditure over the MTFF period. It will require concerted effort by officers and elected members to ensure that the Council remains financially resilient over the medium term.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's constitution lays out its core strategic priorities. The full Council considers at its annual meeting whether any additional plans or strategies, both statutory or non-statutory, should be adopted or approved. The Council's plans and strategies then make up the Council's budgetary and policy framework.

The Council's budget setting process is service-led, underpinned by assessments of the forecast level of demand for services and the level of investment required flowing from the monthly budget monitoring process into future budget plans. Bi-annual budget setting reports and regular budget monitoring reports are presented to Cabinet to provide updates on the Council's financial position. This approach covers the full range of activity within the Council's budget, with particular focus being placed on areas such as social care placements, waste disposal costs and support for homeless households where budgets are realigned to meet demand prior to the consideration of the potential to generate savings in these areas.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The MTFF and budget setting processes are designed to draw upon and integrate with other plans and strategies, including:

Appendix G – Value for Money Commentary

Value for money commentary

- ▶ The Corporate Transformation / Business Improvement District ('BID') Teams work closely with service departments and the dedicated Transformation (Finance) Business Partner within the Corporate Finance Team to ensure that service design and transformation activity is effectively captured in budgets;
- ▶ There is an annual process of budget approval by all Tier 3 managers in the organisation (i.e. Deputy Directors and Heads of Service reporting to Corporate Directors) to ensure that the output from the MTFF process is aligned to local service requirements;
- ▶ The staffing budgets reflect the HR-owned master establishment list to ensure that workforce plans and budgets are wholly aligned. This is included within the annual budget process and then updated on a monthly basis through the post-level budget monitoring process included in the Council's budget management system;
- ▶ Capital & investment strategies are linked into the MTFF and budgets with the MTFF fully reflecting the future debt servicing and repayment costs associated with proposed capital programmes; and
- ▶ Where appropriate, joint strategies such as the Better Care Fund Section 75 Agreement are fully aligned to the MTFF to ensure that Council financial plans are aligned to any externally agreed funding or service delivery plans.

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council identifies risks to financial resilience through its budget monitoring and MTFF processes, as well as through engagement with external stakeholders such as the Society of London Treasurers, the Deputy Treasurers Group and the Association of Directors of Adult Services, where regular discussion, information sharing and benchmarking is used to supplement the Council's own local intelligence.

The identified financial risks, along with the Council's broader operational risks, are summarised in a corporate risk register which is updated on a continuous basis and discussed at Council meetings. Towards the end of 2023/24, the Council began a redesign of the Council's strategic risk reporting to better align the risks from the corporate risk register against the Council's 2022-2026 strategy. This reporting came into use in 2024/25.

Financial risks identified through risk management processes are regularly reviewed against the Council's earmarked reserves and General Fund balance, with appropriate modifications made to the recommended minimum reserves balances where appropriate. Specific earmarked reserves are used to manage the most significant financial risks.

The Council had a net operating budget of £268 million for 2023/24 and reported outturn against this budget with only a £2,000 variance, however this was after two significant one-off adjustments equal to 6.2% of the Council's budget to mitigate the impact of higher than forecast demand for services and inflationary pressures:

1. The release of £9.4 million to reserves as a result of a review of the historical overprovision of Minimum Revenue Provision (MRP). Note that for the reasons set out elsewhere in our Audit Completion Report, we have not reviewed the appropriateness of this MRP adjustment; and
2. The release of £7.2 million more than was budgeted from earmarked reserves, resulting in lower earmarked reserves at 31 March 2024 than had been budgeted for.

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Due to the above one-off adjustments, the Council's General Fund balance at 31 March 2024 of £26.8 million was as planned in the Council's MTFF for the period 2023/24 to 2027/28, however available earmarked reserves have reduced from a planned £15.5 million to £8.3 million at 31 March 2024 (note not all earmarked reserves presented within the financial statements are considered by management to be 'available' to meet spending pressures).

The Council has seen a steady decline in its available reserves over the past few years, with a 25% reduction in the sum of the General Fund and available earmarked reserves between 31 March 2023 and 31 March 2024. Comparison against its peers using the CIPFA Financial Resilience Index demonstrates that the Council has lower borrowing and finance costs but is otherwise significantly less financially resilient than the majority of its peers. As noted earlier in this commentary, the Council's DSG deficit also now exceeds the available reserves of the Council.

Significant drivers of the utilisation of the Council's reserves include increased demand for services and inflationary pressures. As of P6 in 2024/25, the Council is forecasting an overspend against its 2024/25 budget of £41.9 million prior to mitigating actions which is equal to 15% of the total net budget for 2024/25 (further commentary on management's mitigating actions will be provided as part of the commentary on arrangements for 2024/25). The emergence of significant overspends during the first half of the year is indicative that the Council has not accurately captured the scale of the increasing demand for its services or the cost pressures it faces in setting its 2024/25 MTFF during 2023/24.

Both elected members and officers of the Council are proud that the Council is perceived as offering high quality universal services, however this comes at a cost to the Council. Council Tax levels set by the Council are, on the other hand, amongst the lowest in the Council's peer group with the Council having the second lowest Council Tax rates amongst Outer London boroughs at just 84% of the average Council Tax rate for such authorities. This combination of higher than average expenditure on services and lower than average Council Tax receipts poses a challenge the Council will need to manage over the short to medium term.

Given the ongoing deterioration in the Council's financial position, indications that the Council has not fully grasped the scale of the demand and inflationary pressures it faces - and therefore is likely to continue to overspend against forecasts and further erode its reserves - and the absence of detailed plans to return the Council's schools budget to break-even, let alone begin to recover the significant DSG deficit, we are unable to conclude that the Council has had proper arrangements in place to manage its financial position during 2023/24 and conclude that the absence of such arrangements represents a significant weakness in the Council's arrangements to secure value for money. We make the following recommendations to the Council to address this significant weaknesses in the Council's arrangements, and note that failure to take significant and urgent action to address the Council's financial position places the Council's financial sustainability at significant risk:

1. We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term and medium term (next 12-24 months) to protect its limited remaining reserves. This should include review of the level of service provision across its services to ensure that the Council is striking an affordable balance between the monies it receives to fund services and the cost of those services.
2. We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.
3. We recommend that the Council seeks to balance its schools budget to prevent further growth in its Dedicated Schools Grant (DSG) deficit. In the absence of confirmed alternative arrangements, the Council should also perform scenario planning for how it would manage the impact of the current deficit on its financial position when the current statutory override ends in March 2026.

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4. We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, emerge and ensure future forecasting reflects the lessons learned.

Governance: how the body ensures that it makes informed decisions and properly manages its risks

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Cabinet is responsible for approving the Council's risk management policy statement and strategy and for reviewing the effectiveness of risk management. The Corporate Director of Finance is responsible for preparing the risk management policy statement, for promoting it throughout the Council and for advising the Cabinet on proper insurance cover where appropriate. He is also responsible for advising on effective systems of internal control.

It is the responsibility of chief officers to establish sound arrangements for planning, appraising, authorising and controlling their operations. Chief officers are responsible for identifying and controlling hazards and the containment of losses. They notify the Corporate Director of Finance of any new risks or changes which affect insurable risks and they update the Directorate Risk Registers on a quarterly basis. The most significant risks are escalated and summarised in the Corporate Risk Register.

A Corporate Risk Management Group, chaired by the Corporate Director of Finance, reviews the Corporate Risk Register on a quarterly basis and advises the Cabinet and Corporate Management Team on the most significant risks. The Corporate Risk Register is also presented to the Audit Committee on a quarterly basis. Where applicable, financial impacts of corporate risks are incorporated into the MTFE exercise. The Audit Committee monitors and reviews the Council's risk management arrangements, including regularly reviewing the Corporate Risk Register (giving reference to the underpinning Directorate Risk Registers) and seeking assurances that action is being taken on strategic risk related issues.

The Council maintains an internal audit function as required by the Accounts and Audit Regulations 2015. The annual internal audit plan takes into account the strategic risks identified by the Council. Chief officers are required to give proper consideration to internal audit recommendations and to respond accordingly.

The Corporate Director of Finance oversees the development and maintenance of a prevent and detect anti-fraud and anti-corruption policy, with a duty on all Council employees to report any actual or suspected financial irregularity or loss. Notifications are primarily made through line managers, however matters may alternatively be raised with officers listed in the Council's whistleblowing policy or with internal audit. In line with the Council's constitution, all losses must be reported to the Head of Internal Audit.

The Council has a Counter Fraud Team that undertakes activities to detect and resolve external fraud against the Council. In their 2023/24 Annual Report, the Council's Counter Fraud Team reported having delivered £11.2 million of savings for the year, including £6.1 million in relation to housing fraud which has been assessed as the Council's most significant fraud risk. The Council's Counter Fraud Team were awarded the 'Outstanding Fraud Prevention, Detection and Recovery and Grand Prix' award at the Public Finance Awards 2023.

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How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services

The Council seeks to appoint statutory officers who have the skills, resources and support necessary to ensure compliance with the Council's statutory and regulatory requirements.

The Council's Monitoring Officer has statutory reporting duties in respect of unlawful decision making and maladministration. After consulting with the Head of Paid Service and Corporate Director of Finance, the Monitoring Officer reports to full Council or to the Cabinet if they consider that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report has the effect of stopping the proposal or decision being implemented until the report has been considered.

The Council's Standards Committee is established by full Council and is responsible for promoting and maintaining high standards of conduct amongst elected members. In particular, it is responsible for advising the Council on the adoption and revision of the Member Code of Conduct, which applies to both councillors and officers.

Clear guidance is in place for members and officers regarding the acceptance of gifts and hospitality detailed in the Gifts and Hospitality Policy, Golden Rules for Employees and the Council's Constitution. Conflicts of interest can potentially arise in a variety of situations and the Council adopts a rule of thumb of "if in doubt declare it". Examples of situations where a conflict can arise are set out in the Council's Constitution, including guidance around financial and non-financial interests, family members and personal relationships, other employment, personal opinions and social media behaviour, relationships with colleagues and obligations towards the Council's residents, as well as looking after and using Council's assets and resources.

The Member Register of Interests records the pecuniary and non-pecuniary interests of members and co-opted members of the Council. There is a separate Related Parties Register that all members and a selection of senior officers are required to complete each year declaring the relationship and allowing the Council to assess the nature of any transactions which the Council has entered into with related parties. Related party transactions are disclosed in the Council's Statement of Accounts, which are approved by the Audit Committee on an annual basis.

How the body approaches and carries out its annual budget setting process

The Corporate Director of Finance is responsible for ensuring that a revenue budget is prepared on an annual basis for consideration by the Cabinet, before submission to full Council. It is the responsibility of chief officers to ensure that budget estimates reflecting agreed service plans are submitted to the Cabinet and that these estimates are prepared in line with guidance issued by the Cabinet.

Following a robust challenge process involving both chief officers and members, as well as a statutory budget consultation process with business ratepayers and residents in the borough, the Council may decide to adopt the Cabinet's proposals, amend them, refer them back to the Cabinet for further consideration, or substitute with its own proposals. Any decision is made on the basis of a simple majority of votes cast at a Council meeting. Once the decision has been taken by the Council, it will be publicised and implemented.

The Council's budgets include the General Fund, the Housing Revenue Account and the capital budgets. Detailed approval limits and roles, as well as conflict resolution guidelines on adoption of plans or strategies are set out within the Council's constitution.

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How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships

Chief officers control income and expenditure within their area and they monitor performance on a monthly basis, taking account of financial information provided by the Corporate Director of Finance, as well as non-financial information, where appropriate. They report on variances within their own areas and they take any action necessary to avoid exceeding their budget allocation and alert the Corporate Director of Finance to any problems. Budget manager engagement is actively tracked against a four-day deadline for monitoring returns each month.

As part of the monthly budget monitoring process, the financial position of each department is reviewed in detail by the Corporate Director of Finance with dedicated monthly meetings with each Corporate Director to ensure that issues and actions emerging from the monitoring process are dealt with and reflected in the MTF, as appropriate. The outputs from this process are presented to Cabinet on a monthly basis, alongside informal briefings to the Cabinet Member for Finance and other portfolio members, as appropriate.

The general format of the budget is approved by full Council and proposed by the Cabinet on the advice of the Corporate Director of Finance. The draft budget includes an allocation to different services and projects, proposed taxation levels and contingency and reserve funds, in order to comply with statutory requirements.

The Audit Committee reviews and monitors the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risks and/or weakens the control environment. This includes their review and approval of the statutory annual statement of accounts. Specifically, they consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the external auditor that need to be brought to the attention of the Council. In addition, the Audit Committee considers the external auditor's report to those charged with governance on issues arising from the external audit of the financial statements.

The Accounts and Audit Regulations 2015 require that local authorities undertake a period of public inspection of the Council's draft financial statements. The statutory deadline by which this period of inspection was required to have commenced for the year ended 31 March 2024 was 1 June 2024. The Council did not meet this deadline, instead commencing its inspection period on 1 July 2024.

In addition, the Accounts and Audit Regulations 2015 require that prior to the commencement of the inspection period local authorities must publish the Annual Governance Statement and the Narrative Statement alongside the draft financial statements. The Council did not comply with this requirement as no Annual Governance Statement was published by the Council. Due to this fact, the inspection period run by the Council did not meet the requirements of the Accounts and Audit Regulations 2015 and the Council is required to re-run the inspection period. As a result, the Council will not be able to publish its final Statement of Accounts for 2023-24 by the statutory deadline of 28 February 2025 set out within the Accounts and Audit (Amendment) Regulations 2024. We have made a control recommendation to the Council to ensure it fully understands and has processes in place to ensure compliance with the Accounts and Audit Regulations 2015 as part of our audit observations on the Council's internal control environment.

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How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

The Council issues and keeps up to date a record of what part of the Council or individual has responsibility for particular types of decisions or decisions relating to particular areas or functions. The Council's Constitution sets out the key roles and responsibilities for decision making, as well as the procedures that are followed to ensure that the decisions taken are efficient, transparent and accountable to local people. The Constitution is reviewed at full Council meetings as required and also more comprehensively on an annual basis at each Annual General Meeting, as required.

Part 2 of the Council's Constitution sets out the 'Cabinet Scheme of Delegations'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet Members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Directors' responsibilities.

Part 3 of the Constitution sets out the 'Scheme of Delegations to Officers'. This governs the responsibilities allocated to officers to perform the authority's activities and details what decisions may be taken by officers without member approval. Further specific delegations may be granted by Council committees during public meetings.

The Council is committed to the seven Nolan Principles of Public Life and these are detailed in the Constitution. All Council and committee meetings are held in public (the public are excluded only in limited circumstances of consideration of confidential or exempt information), with agenda and reports being produced and published on the Council's website. Key Council meetings are broadcast live on YouTube including full Council, Cabinet, Planning Committees, Licensing Sub Committee and Petition Hearings (subject to public interest).

The Audit Committee's role is to review, monitor and challenge the Council's internal and external audits, governance, risk management and the associated control environment.

As reported in our Audit Completion Report for the 2022/23 audit, the Council opted to delay publication of its draft financial statements for 2022/23 until the audit of the Council's 2021/22 financial statements was completed on 28 September 2023. Due to the timing of completion of the 2021/22 audit and delayed publication of the draft 2022/23 financial statements, we assessed that we did not have the audit resources necessary to perform the 2022/23 audit before the anticipated backstop date and advised the Council to focus its attention on its preparations to support the external audit of its 2023/24 financial statements.

As noted earlier in this commentary, the Council did not meet the statutory deadline to commence the inspection period of its draft 2023/24 financial statements by 1 June 2024 and commenced the inspection period on 1 July 2024.

Audit fieldwork to support the opinion on the Council's 2023/24 financial statements took place between July 2024 and December 2024. Despite the audit resources deployed during this period being in-line with the requirements of the size and complexity of the Council, we were able to complete less than half of our planned audit procedures and are therefore unable to form an overall opinion on the Council's 2023/24 financial statements. A significant driver of the inability to complete our audit work was the quality of working papers and other information produced by the Council. This includes information received from the Council's finance team and information received from other teams within the Council relevant to the production of its financial statements, though the finance team should provide a level of quality assurance over such information where it relates to the financial statements. The capacity and knowledge within the Council's finance team, which has seen the departure of several experienced individuals, was also a contributing factor. In our view, the Council did not have proper arrangements in place to support the timely production and audit of its 2023/24 financial statements.

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The overall opinion of the Council’s Head of Internal Audit for 2023/24 was only able to offer ‘Limited’ assurance that the system of internal control in place for the year ended 31st March 2024 accorded with proper practice. The Council’s commitment to engaging with internal audit to continuously improve, rather than focusing on traditional compliance-based audits, as well as the impact of significant transformation work ongoing across the Council were noted as contributing to the increase in the number of limited assurance internal audit reports, however in summarising the basis for this conclusion the Head of Internal Audit also noted that “poor data quality, reliance on manual records and reliance on outdated systems that are no longer fit for purpose also impacted on the quality of documentation and performance data available”. In our view, this is indicative that the challenges encountered in the delivery of the Council’s external audit extend beyond the production and audit of the financial statements and are likely to be undermining the reliability of information used across the Council, including where used in the monitoring of Council performance and to inform decision making.

The observations of the Council’s internal auditor indicate that the inability of the Council to produce its draft financial statements by the statutory deadline or support the external audit of those statements is a symptom of more fundamental weaknesses in the way the Council records, processes and reports on the information it holds. Such weaknesses increase the risk that the Council is unable to make properly informed decisions, or makes incorrect decisions based on poor quality information, and is not able to support effective scrutiny of its financial and non-financial performance by reporting timely, accurate and meaningful data. We also note that poor data quality may be a contributing factor as to why the Council has ongoing difficulty in accurately predicting demand for its services, as noted earlier in this commentary.

Given these observations, we are unable to conclude that the Council had proper arrangements in place to ensure that it makes informed decisions and properly manages its risks and conclude that the absence of such arrangements represents a significant weakness in the Council’s arrangements to secure value for money. We make the following recommendations to the Council to address this significant weaknesses in the Council’s arrangements:

5. We recommend that the Council perform data quality assessments, using the Government Data Quality Framework or another suitable framework, of its key activities to enable it to better understand what its key data sources are, how it uses such data, the maturity of its data quality processes and any limitations in the data it uses;
6. We recommend that having completed the data quality assessments, the Council should develop actions plans to address any data quality issues identified by its data quality assessments. This should initially focus on the Council’s most significant data sources and any significant data quality issues identified by the data quality assessments, however over the time the Council should seek to embed data quality processes into its day-to-day operations;
7. We recommend that the Council review the capacity and skill mix within the Council’s finance team to ensure that the Council is able to support the production and audit of its financial statements within statutory timeframes, as this is a key enabler for supporting appropriate scrutiny of the Council’s financial performance by stakeholders.

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Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services

How financial and performance information has been used to assess performance to identify areas for improvement

The Council's Performance Management Framework is a Council-wide framework requiring all service areas and teams to set annual service delivery plans and targets, identify delivery risks and report performance against Council priorities. Management's objectives are that key aspects of performance are monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.

In addition, the monthly budget monitoring process, as described in the previous sections of this commentary, is the main tool used by the Council to assess its financial performance against set targets and to identify areas for savings and efficiencies. The Council's aspires for its budget monitoring processes to be aligned to key performance data, including in relation to workforce, demand-led activities and income from fees and charges, however recognises that further improvement in this area is required.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The effectiveness of the Council's interventions and the quality of its services is monitored through the preparation of regular performance reports showing progress towards goals and targets set in the budget and business plans. Key areas are highlighted for decision-makers to ensure that where corrective action may be required this is communicated.

The Council uses key performance indicators to monitor internally and externally produced services. Regular reporting of performance against key performance indicators is submitted to senior management teams, the corporate management team and members. Where Council services are procured from an external provider, expected performance against key performance indicators forms part of the contracting arrangement and is used to monitor the effectiveness of the services received.

The Hillingdon Improvement Programme ('HIP') is aimed at delivering a range of key improvements to the way the Council works and improving services to the Council's service users. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors have responsibility for the delivery of individual HIP projects.

The Council allows for members of the public, employees or organisations which deliver services on behalf of the Council to submit complaints in relation to the services it provides and reviews the nature of complaints received, along with the nature of enquiries from elected members, to identify themes which may indicate areas for improvement. Managers are encouraged to highlight areas of inefficiency or poor performance in their service area for improvement and build this in to future budgets.

The Council's children's services were subject to inspection by Ofsted in October 2023, with the Council receiving an 'outstanding' rating for overall effectiveness with Ofsted noting "Children in the London Borough of Hillingdon continue to receive highly effective services. Very strong political support and diligent partnerships have enabled the senior leadership team to be an excellent champion for children, families and young people. Since the last inspection of local authority children's services (ILACS) in 2018, leaders have continued to strengthen and improve practice, despite the increasing demands on services. An ongoing 'transformation' of services has improved frontline practice with children and families. There are areas of innovation that stand out as exceptional practice, improving children's experiences and progress, such as the enhanced offer to children and families out of hours".

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How the body ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives

The Cabinet is the primary forum through which the Council's engagement with other local public, private and voluntary sector organisations is overseen, and has responsibility for approving frameworks under which partnership working takes place.

The Cabinet has delegated specific authorities to the Cabinet Member for Corporate Services & Transformation to promote effective methods of partnership working in consultation with the appropriate Cabinet Member, if it relates to specific service areas, and to oversee proposed arrangements with public and other bodies for the delivery and funding of partnership initiatives which affect the Council.

The Corporate Director of Finance considers the overall corporate governance arrangements, legal matters (with input from the Monitoring Officer) and other risks when arranging contracts with external partners. Chief officers are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to partnership arrangements.

The Council works closely with a broad range of stakeholders and partners, co-ordinated through the Community Engagement Team, to ensure that partnerships deliver the expected outcomes. An annual review of the voluntary sector grants programme is reported to Cabinet to support monitoring of the impact of grants and the reallocation of resources, where appropriate.

Contact details for key partners are published on the Council's website along with contact information and details of any complaints procedures operated by partners.

Where the body commissions or procures services, how it assesses whether it is realising the expected benefits

The Council's Constitution lays out the framework for procurement and contract standing orders for every contract awarded by or on behalf of the Council in respect of goods, works or services. Compliance with the procurement standard operating procedures is mandatory across all Council departments, together with the application of best practice.

Corporate Directors, Directors, Deputy Directors and Heads of Service are responsible for ensuring that all officers who procure goods, works or services comply with the Constitution and the Procurement Standard Operating Procedures. Only officers who are deemed to be qualified and competent by the Head of Procurement, in conjunction with the appropriate Corporate Director, are allowed to procure goods, works or services. These officers are identified within each Department's individual Scheme of Delegations.

Where external or specialist advice is required, a specific legal budget exists within procurement that is used to mitigate risks in the work the Council undertakes. Procurement is a recurring area of focus for internal audit activity and where recommendations are made, appropriate action is taken.

The Council's overall process for assessing performance, as discussed previously in this commentary, is also applied to the performance monitoring of services delivered by third parties and enables the assessment of the benefits received from partner organisations against the relevant pre-determined key performance indicators.