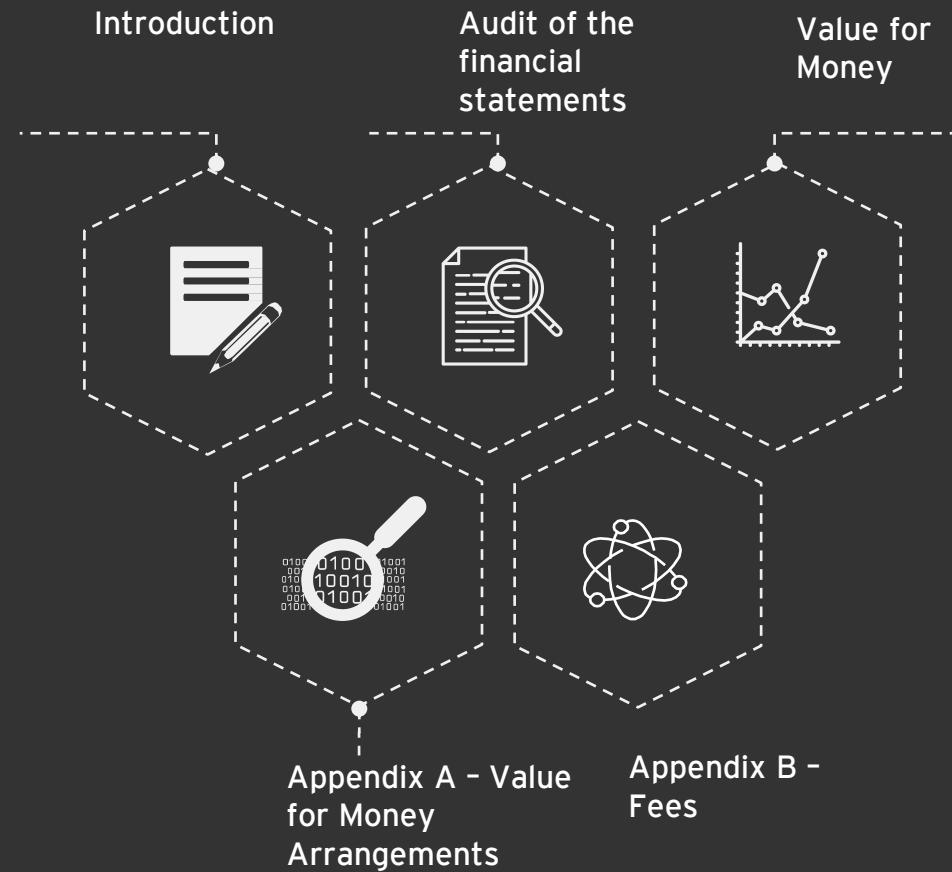
The background of the image is a photograph of a modern building's interior, characterized by extensive glass walls and a polished floor. The glass reflects the interior lights and the surrounding environment. A bright yellow rectangular box is overlaid on the left side of the image, containing the report's title and date information.

London Borough of Hillingdon Auditor's Annual Report

Year ended 31 March 2022

28 September 2023

Contents



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

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



Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

For London Borough of Hillingdon (the 'Council'), we have undertaken our 2021/22 audit work in accordance with the Outline Audit Planning Report that we presented to the April 2022 meeting of the Audit Committee and the VFM Risk Assessment and Draft Audit Results Report presented to the August 2023 meeting of the Audit Committee. For London Borough of Hillingdon Pension Fund (the 'Pension Fund'), we have undertaken our 2021/22 audit work in accordance with the Outline Audit Planning Report that we presented to the April 2022 meeting of the Audit Committee. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement for the Council and the Annual Report for the Pension Fund.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements and the financial statements of the Pension Fund, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Pension Fund is responsible for publishing the Annual Report.



Introduction (continued)

2021/22 Conclusions

Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council/Pension Fund as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 28 September 2023.
Going concern	We have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	Financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Appendix A.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts/ Certificate	We received the 2021/22 WGA Group Audit Instructions as issued by the National Audit Office ('NAO') and we confirmed that the Council is under the threshold of £2bn for full audit procedures (threshold is consistent with 2020/21). However, the increase in HM Treasury's local government threshold means that there is a risk the NAO WGA team might require some assurances from auditors of bodies below the threshold. At the date of this report, we have not been informed that the NAO has completed their sample selection for the 2021/22 WGA process. This does not prevent us from completing our audit report, but it delays the issue of the audit certificate.



Audit of the financial statements - London Borough of Hillingdon

Key findings

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

On 28 September 2023, we issued an unqualified opinion on the financial statements. We reported our preliminary detailed findings to the 8 August 2023 Audit Committee meeting and our final findings via email to the Chair and members of the Audit Committee and via a call with the Deputy Chair of the Audit Committee held on 28 September 2023. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported six internal control recommendations and no areas for improvement in the control environment in the Audit Results Report and summarised on page 7 of this report.

Significant risk	Conclusion
Management Override: Misstatements due to fraud or error	We did not identify any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Risk of inappropriate capitalisation of revenue expenditure	We completed our work on this significant risk and did not identify any instances where expenditure was inappropriately capitalised.
Accounting adjustments made in the 'Movement in Reserves Statement'	We did not identify any issues with management's application of the relevant statutory guidance.
Valuation of land and buildings valued under the Depreciated Replacement Cost ('DRC') method and the Existing Use Value ('EUV') method	<p>We engaged our real estates valuation specialists to help us complete this work. After management posted the audit adjustments identified, we reported two judgemental one projected <u>unadjusted audit differences</u>:</p> <ol style="list-style-type: none"> 1) judgemental overstatement of land and buildings values of £5.6m due to differences in professional opinion between professional valuers (Wilks Head & Eve and EY Real Estates) on undeveloped land values, external development costs and Central Depot valuation; 2) projected understatement of land and building values by £1.2m due to incorrect gross internal area and land area size used by the Council's external valuers Wilks Head & Eve. <p>We also reported a number of control recommendations on the record keeping and valuation process for property, plant and equipment.</p> <ol style="list-style-type: none"> 3) <u>prior year</u> judgemental overstatement of Harlington School valuation of £9.9m, which was identified and corrected by management during the 2021/22 audit. We identified this audit difference as part of our response to the significant risk around valuation of land and buildings valued under the depreciated replacement cost method. <p>We also reported one <u>adjusted audit difference</u>:</p> <p>Land and buildings valued at Depreciated Replacement Cost ('DRC'): as part of our response to the significant risk on valuation of land and buildings, we identified that Harlington school had been part of Department for Education's (DfE) Priority School Building Programme. This decision increased the obsolescence of the old building when applying the DRC method of valuation and resulted in the following adjustments: 1) Impairment of old school building in the amount of £19.9m; 2) Recognition of the new school building as an asset under construction of £6.1m, which was the Council's in-year contribution; 3) Decrease in revaluation reserve by £4.6m and 4) Recognition of impairment loss of £9.2m.</p>



Audit of the financial statements - London Borough of Hillingdon

Key findings (continued)

Significant risk (continued)	
Derecognition of infrastructure assets upon subsequent expenditure/ replacement	<p>This has been a nationwide local government issue. The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA worked on a sector wide approach to resolution of the reporting of infrastructure assets. DLUHC issued a Statutory Instrument, which allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. CIPFA issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets. A CIPFA guidance note was issued in January 2023 to provide further guidance to affected local authorities.</p> <p>The Council provided us with their assessment of the Statutory Instrument application and the updated statement of accounts with the new presentation and disclosure of infrastructure assets. We reviewed the Council's working papers and disclosures and assessed these as reasonable.</p>
Inherent risk	Conclusion
Pension liability	<p>Our planned work in this area was completed, and included our assessment of the impact of the triennial valuation on IAS19 amounts. Similar to the prior year, we identified a judgemental understatement of pensions liability due to the Goodwin case of £2.5 million, which remained unadjusted in the accounts.</p> <p>As a result of the full triennial valuation at 31 March 2022, the Council instructed the actuary to re-run the IAS 19 results as at the reporting date. This resulted in an increase of the pension liability balance by £21.6m, which the Council amended in the accounts, along with the relevant disclosures.</p>
Valuation of Council Dwellings	<p>We obtained sufficient assurance with regards to the valuation of council dwellings at 31 March 2022. However, our review procedures revealed that a number of dwellings added in 2020/21 were only revalued in 2021/22, resulting in a social housing adjusting factor revaluation loss of £8.6m recorded in 2021/22, which should have been recorded in 2020/21. Management chose not to restate the comparatives because a restatement is not considered to be material to the users of the accounts. We have reported this as a prior year unadjusted misstatement.</p>
Consideration of Group Boundary	<p>As a result of our audit work, we concurred with the Council's conclusion that the consolidation requirement was not required for this financial year.</p>
Central government grants and other Covid-19 funding streams	<p>We selected a sample and tested government grant income to ensure that it was recorded at the correct amount and correctly classified as specific or non-specific in nature. We established that both grant income and grant expenditure were overstated by £7.5 million. Management corrected this error in the statement of accounts. We completed our work and have no other findings to report.</p>
Area of focus	Conclusion
Going concern	<p>We completed our planned procedures to cover at least 12 months from the auditor's report date.</p> <p>We did not identify any material uncertainties with regards to the going concern of the Council and following certain adjustments to the disclosure related to the timing of the audit finalisation, we considered the going concern disclosure to be appropriate and sufficient.</p>



Audit of the financial statements - London Borough of Hillingdon

Other findings

In our final Audit Results Report to the Committee, we highlighted a number of areas for the Council to consider as it prepares accounts in future years. We include the most significant of those points here.

- **Documentation retention to support judgements:** we reported a corrected audit difference in relation to the accounting for the Better Care Fund. We recommend the Council retains detailed documentation to support their judgement on significant accounting issues. The documentation should demonstrate that the accounting treatment is in line with the requirements of the CIPFA Code of Practice.
- **Council Dwellings - timing of revaluation:** in our audit results report, we reported a prior period unadjusted audit difference which relates to the timing of valuation of council dwellings. In this respect, we recommend that management improve the internal controls around the timing of valuation of additions to council dwellings due to the potentially significant impact that the social housing discounting factor can have on the revaluation.
- **Exit packages disclosure:** management restated the comparative figures for exit packages disclosure due to a clerical error that has been recurring for a number of years: double counting of pension strain costs in the total exit packages cost disclosure. To reduce the risk of errors in sensitive disclosures, we recommend that the Council implements detailed internal review procedures of working papers underlying accounts disclosures by employees with an appropriate level of experience. The Council could also develop and adopt process notes on preparation of disclosures, which can be followed by continuing and new employees.
- **Property, plant and equipment:** a number of recommendations were made with regards to record keeping and revaluation of fixed assets:
 - **Record keeping:** we identified a number of issues related to bookkeeping, such as: incorrect valuation method used for a number of community assets, untimely derecognition of disposed assets, incorrect gross internal areas used in valuation of some assets, incorrect valuation method indicated in the Fixed Asset Register for certain assets. We recommend improving processes around accounting for property, plant and equipment as this represents a significant balance in the Council's accounts.
 - **Properties not revalued in year:** We recommend the Council reviews the valuation of assets not revalued in year at each reporting date and before finalising the accounts. An option, could be to value at least 20% of properties from each asset class and use the revaluation movement as a proxy for indexation for the respective asset class to establish the potential movement in values of assets not revalued.
 - **Revaluation cycle:** During our audit procedures, we noted a material balance of assets not revalued in the last 5 years, a minimum mandated by the CIPFA Code. We recommend that the Council revisits its portfolio of valuations to ensure all assets are revalued once every 5 years at a minimum.

Management formally responded to our control recommendations with actions and plans to address these.

Other matters:

As part of our considerations of laws and regulations compliance, we assessed the impact of a letter we received from a member of the public registered on the London Borough of Hillingdon electoral register. We undertook an assessment of potential non compliance resulting from this correspondence and concluded that the matter was clearly inconsequential for our audit. We communicated the matter for management's further consideration and responded to the member of the public within our professional responsibilities.



Audit of the financial statements - London Borough of Hillingdon Pension Fund

Key findings

On 28 September 2023, we issued an unqualified opinion on the financial statements. We reported our preliminary detailed findings to the April 2023 meeting of the Audit Committee, and our final findings were circulated to members by email on 28 September 2023. We also held a call with the Deputy Chair of the Audit Committee on 28 September 2023 and discussed the final results. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Outline Audit Planning Report dated April 2022.

Significant risks

Findings and Conclusion

Misstatements due to fraud or error, including misstatement of investment amounts through fraudulent journal entries

We carried out procedures to address fraud risks as set out in our outline audit plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach.

We performed a reconciliation between the fund managers' reports and the custodian reports to address the risk of manipulation of asset valuations.

We had no matters to bring to your attention.

Valuation of complex investments (Level 3 Fair Value hierarchy)

We undertook additional procedures to gain material assurance over the year-end valuation of the Fund's complex investments disclosed as Level 3 in the fair value hierarchy, and therefore inherently more difficult to value.

We completed our work in this area and reported an adjusted audit difference as follows: re-classification of investment assets from level 2 to level 3 fair value hierarchy in the amount of £47.8m. We tested the re-classified investments under Level 3 principles for valuation.

Other area of audit focus

Findings and Conclusion

Disclosure on Going Concern

We completed our planned procedures to cover at least 12 months from the auditor's report date.

We did not identify any material uncertainties with regards to the going concern of the Council and following certain adjustments to the disclosure related to the timing of the audit finalisation, we considered the going concern disclosure to be appropriate and sufficient.

IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits

Our procedures include assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.

We completed our work in this area and concluded that the actuarial present value of promised retirement benefits could be understated by a judgmental difference related to the Goodwin case of £2.9m (£3.1m PY). This remained unadjusted in the accounts due to its overall immateriality to the statements and its judgmental nature.

We also assessed the impact of the triennial valuation results as at 31 March 2022 on the IAS 26 disclosures in the Pension Fund's accounts. We concluded that the disclosure remained reasonable.

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 8 August 2023 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Corporate Director of Finance and the Director of Pensions, Treasury and Statutory Accounts and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures in August 2023 and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 10 to 22. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Our VFM commentary highlights relevant issues for the Council and the wider public.

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified

We have no matters to report by exception in the audit report.



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement rests with management.

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 four years. As part of the MTFF process, the Council engages with its directorates and bodies outside of the organisation, such as the Society of London Treasurers (SLT), the Deputy Treasurers Group (DTG) and the Association of Directors of Adult Services (ADASS), where regular discussion, information sharing and benchmarking supplements local intelligence.

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 by identifying savings and income opportunities. Over the period 2021/22 to 2023/24, the Council planned to bridge its funding gap through council tax increases, approved savings programme and income generation proposals.

Following our review of the budget outturn report and the MTFF, we noted that the focus of the Council is a service-led approach to budget setting. As noted in the 2021/22 budget outturn report, £7,717k of the £10,416k savings planned for 2021/22 were banked in full by 31 March 2022. Per the February 2022 MTFF, a savings programme of £29,572k was developed, enabling delivery of a balanced budget for 2022/23 and leaving a residual budget gap of £5,680k in later years of the MTFF period.

The Council also prepares a cash flow forecast that covers one year from the auditor's report date. This enables identification of short term financial pressures.

The identified financial risks, along with the Council's broader operations risks, are summarised in a risk register, which is updated on a continuous basis and it is discussed at the Council meetings. The Audit Committee will monitor and review, but not direct, the Council's risk management arrangements, including regularly reviewing the corporate risk register (giving reference to the directorate risk registers) and seeking assurances that action is being taken on strategic risk related issues.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council is required to have arrangements in place to ensure proper risk management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement rests with management.

During the period since our initial assessment of the proper arrangements for informed decision making, we have held regular (at least monthly) meetings with management, reviewed minutes of key meetings and attended every Audit Committee. There have been no indications of fundamental failures in the proper arrangements considered in our initial risk assessment.

In June 2023, we received a letter from a member on the Council's electoral register. Based on our review of the matter, we did not identify a significant weakness in the proper arrangements to secure value for money because we did not identify any evidence to substantiate the allegations and we concluded there was no evidence of misuse of Council funding.

The audit identified a number of adjusted, and unadjusted errors across the financial statements. We considered whether this represents a risk of significant weakness in the proper arrangements to ensure there are proper processes in place to have relevant, accurate and timely information to support statutory financial reporting requirements. We have reported, within our Audit Results Report, a number of internal control recommendations as per page 7 of this report. The Council has accepted that improvements are needed in these areas, and this has been reported to the Audit Committee. We do not judge these findings to be so significant that they indicate a weakness in the proper arrangements at the Council.

The Council maintains a Corporate Risk Register ('CRR'), which summarises operational and financial risks and is presented to the Audit Committee on a quarterly basis. It also maintains an adequate and effective internal audit function as required by the Accounts and Audit Regulations 2015. A risk based internal audit plays a central and essential role in maintaining a sound system of internal control at the Council. Chief officers are required to give proper consideration to internal audit recommendations and to respond, accordingly.

The Counter Fraud Team ('CFT') at the Council undertakes regular activities to detect and resolve external fraud against the Council.

Through 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 MTFF as appropriate. The outputs from this process are presented to Cabinet on a monthly basis, alongside informal briefing to the Cabinet Member for Finance and other portfolio members as appropriate.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



Value for Money (continued)

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

The Council is required to have arrangements in place to ensure proper governance and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement rests with management.

We have held regular (at least monthly) meetings with management throughout the audit process, reviewed minutes of key meetings and attended every Audit Committee, during the period since our initial assessment of the proper arrangements for informed decision making. There have been no indications of fundamental failures in the proper arrangements considered in our initial risk assessment.

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 take corrective action if necessary.

The Council puts in place key performance indicators ('KPIs') to monitor internally and externally produced services. Reports compiling KPIs are submitted to the Senior Management Teams, the Corporate Management Team and members to support transparency and resource allocation to address challenges. The Council ensures that external companies who deliver services have an understanding of expected contract performance and monitoring takes place throughout the contract period.

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 residents. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors are also responsible for specific HIP projects. The HIP covers a number of workstreams, including: Business Improvement Delivery programme, Capital Programme and Property, school estates, housing, technology, innovation and communications, corporate finance.

Alongside the governance structures in place, the Council's monthly budget monitoring processes and the MTFF process provide a level of challenge to drive out further improvements to services, alongside feedback mechanisms such as members' enquiries and customer complaints. The Council has complaints procedures for members of the public, Council employees and employees and organisations who deliver services on behalf of the Council. These are published on the Council's website: <https://www.hillingdon.gov.uk/complaints>. The policy and procedures allow managers to address issues of unsatisfactory service and seek improvements in service delivery.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

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

Findings

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 four years. This forecast is revisited and extended on an annual basis, or more frequently if necessary. 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 which may impact upon the budget position. These monthly reports are reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures, whilst continuing to deliver on the Council's priorities for residents.

The Council also prepares a cash flow forecast that covers one year from the auditor's report date. This enables identification of short term financial pressures.

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

Over the period 2021/22 to 2023/24, the Council planned to bridge its funding gap through council tax increases, approved savings programme and income generation proposals.

The Council identifies achievable savings through a range of mechanisms, including:

- i. The impact of more fundamental, end to end, business process reengineering through a revised approach to digital customer contact/ channel shift at the front door, the roll out of robotics and automation to back-office processes and then the implementation of more efficient ways of working, such as the Perform Plus methodology.
- ii. The modernisation and reshaping of service delivery models including moving towards more integrated service hubs, and more efficient and effective service offerings.
- iii. The streamlining and refocussing of Council management structures and then associated staffing structures through further BID reviews.
- iv. Maximising use of assets, alongside a strategic review of the capital programme and its financing.

Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council's constitution lays out its core strategic priorities. 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 make up the Council's budgetary and policy framework.</p> <p>The Council's budget setting process is service-led, with a comprehensive assessment of the level of demand for services and the level of investment required flowing from the monthly budget monitoring process into future budget plans, as seen in both the regular monitoring and bi-annual budget setting reports to Cabinet. 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 consideration of potential to generate savings in these areas.</p>
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	<p>The MTFF and budget setting processes facilitate an effective integration with other plans and strategies, for example:</p> <ul style="list-style-type: none">• The Corporate Transformation / BID Team 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 future debt servicing and repayment costs clearly flowing through from spending plans.• Where appropriate, joint strategies such as the Better Care Fund Section 75 Agreement, are fully aligned to the MTFF to ensure that contributions to the wider health and social care system are in place and available to meet residents' needs.

Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>The Council identifies risks to financial resilience through its budget monitoring and MTFF processes, as well as engagement outside of the organisation through active engagement with bodies such as the Society of London Treasurers (SLT), the Deputy Treasurers Group (DTG) and the Association of Directors of Adult Services (ADASS), where regular discussion, information sharing and benchmarking supplements local intelligence.</p> <p>The identified financial risks, along with the Council's broader operations risks, are summarised in a risk register, which is updated on a continuous basis and it is discussed at the Council meetings. The Audit Committee will monitor and review, but not direct, the Council's risk management arrangements, including regularly reviewing the corporate risk register (giving reference to the directorate risk registers) and seeking assurances that action is being taken on strategic risk related issues.</p> <p>The Council regularly reviews the range of risks against the appropriate level of provision managed through the General Fund. This analysis is set out in the annual review of the adequacy of balances completed as part of the budget setting report in February of each year.</p> <p>The Council makes effective use of its earmarked reserves as a tool for the management of risks to financial resilience, with dedicated reserves in place for specific risks such insurance claims, care provider default, income volatility and fluctuations for demand for homelessness support, etc. As an example, reacting to emerging inflationary pressures in early 2022, the decision was taken to earmark £3.3m funds to manage uplifts in costs.</p>

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

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

Findings

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. These arrangements ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use. 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 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 ('CRR').

A Corporate Risk Management Group ('CRMG'), chaired by the Corporate Director of Finance, reviews the CRR on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The CRR is presented to the Audit Committee in the following quarter. Where appropriate, the MTFE incorporates the potential financial impact of significant risks.

The Audit Committee monitor and review, but not direct, the risk management arrangements, including regularly reviewing the CRR and seeking assurances that appropriate action is being taken on managing risks.

The Council maintains an adequate and effective internal audit function as required by the Accounts and Audit Regulations 2015. A risk based internal audit plays a central and essential role in maintaining a sound system of internal control at 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. Anyone who becomes aware of any actual or suspected financial irregularity or loss, whether of money or assets, normally notifies their line manager in the first instance.

If necessary, the matter may alternatively be raised with one of the officers listed in the whistle-blowing policy, or with the external auditor. Per the Council's constitution, all losses must be reported to the Head of Internal Audit.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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 (continued)	<p>The Council has a Counter Fraud Team ('CFT') that undertakes activities to detect and resolve external fraud against the Council. Per Council's counter fraud report for 21/22, the CFT "managed to exceed its financial target of £1.5m, delivering total savings of £3.04m across Council services. This represents the CFT's most successful year, which in part, can be attributed to the team's new initiatives in revenues maximisation." In our regular attendance at Audit Committees, we noted the reporting of achievements by the CFT.</p>
How the body approaches and carries out its annual budget setting process	<p>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.</p> <p>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 the meeting. Once the decision has been taken by the Council, it will be publicised and implemented.</p> <p>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 within the Council's constitution: https://www.hillingdon.gov.uk/constitutionanddelegations. 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.</p>
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	<p>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 the four-day deadline for monitoring returns each month.</p> <p>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. Finally, the outputs from this process are presented to Cabinet on a monthly basis, alongside informal briefing to the Cabinet Member for Finance and other portfolio members as appropriate.</p> <p>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, sufficient to comply with statutory requirements.</p>

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

Findings

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
(continued)

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 risk 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 accounts.

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, article 7.08 of the 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. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions.

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. Details of what decisions are taken in this way are included in the Scheme of Delegation in the Council's Constitution. Further specific delegations may be granted through recommendation in public reports to Committees.

The Council is committed to the seven Nolan Principles of Public Life and these are detailed in the Constitution: selflessness, integrity, objectivity, accountability, openness, honesty, leadership. 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 Committees, Petition Hearings (subject to public interest).

The Audit Committee's role is to review, monitor and challenge the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism. They review and monitor the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment and they oversee the financial reporting process of the Statement of Accounts.

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

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)

Findings

The Council appoints 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 he or she considers 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 councillors. In particular, it is responsible for advising the Council on the adoption and revision of the Member Code of Conduct, which apply 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 a simple rule of thumb is "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 nature of any related party transactions, which the Council has entered into. Related party transactions are disclosed in the Council's Statement of Accounts, which are approved by the Audit Committee on an annual basis.

Appendix A - Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria

Findings

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, targets, identify risk and report performance against Council priorities. 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 ('SMTs') and reported quarterly to the Corporate Management Team ('CMT'). Performance monitoring covers a broad range of functions, including Highways, Waste & Recycling and Social Care.

An example of the close links between finance and performance data is the Council's social care placement activity data, which is integrated into the budget management system to enable direct comparisons between activity and spend, alongside standard costing to be undertaken within the system. This approach is mirrored across demand-led services, including waste disposal and homelessness.

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 budget monitoring processes are closely aligned to key performance data -particularly on workforce, demand-led activity and fees & charges. This means that the General Fund revenue budget activity is being monitored with an explicit link to the relevant performance information, which enables identification of areas for improvement.

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 take corrective action if necessary.

The Council puts in place key performance indicators ('KPIs') to monitor internally and externally produced services. Reports compiling KPIs are submitted to SMTs, CMT and members to support transparency and resource allocation to address challenges. The Council ensures that external companies who deliver services have an understanding of expected contract performance and monitoring takes place throughout the contract period.

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 residents. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors are also responsible for specific HIP projects.

The HIP covers a number of workstreams, including: Business Improvement Delivery programme, Capital Programme and Property, school estates, housing, technology, innovation and communications, corporate finance.

Alongside the governance structures in place, the Council's monthly budget monitoring processes and the MTF process provide a level of challenge to drive out further improvements to services, alongside feedback mechanisms such as members' enquiries and customer complaints. The Council has complaints procedures for members of the public, Council employees and employees and organisations who deliver services on behalf of the Council. These are published on the Council's website. The policy and procedures allow managers to address issues of unsatisfactory service and seek improvements in service delivery.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria

Findings

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Cabinet is responsible for approving frameworks for partnerships. The Cabinet is the focus for forming partnerships with other local public, private, voluntary and community sector organisations to addressing local needs. Key partner names are published on the Council’s website along with contact information and complaints procedure against these partners.

Specific delegations to the Cabinet Member for Corporate Services & Transformation include: to promote effective methods of partnership working in consultation with the appropriate Cabinet Member if this 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 issues 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 work with partners.

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 services for local residents. The annual review of the voluntary sector grants programme enables Cabinet to effectively monitor performance, target resources as appropriate and take action where improvement is necessary.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body 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 and 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 ensure 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 subject to internal audit in a number of areas and where recommendations are made, appropriate action is taken. In addition, the Council’s overall process for assessing performance, as discussed previously in this commentary, enables the assessment of benefits received from partners against the relevant pre-set key performance indicators.

Appendix B – Fees

Fees - London Borough of Hillingdon

We carried out our audit of the Council’s financial statements in line with PSAA Ltd’s “Statement of Responsibilities of auditors and audited bodies” and “Terms of Appointment and further guidance (updated April 2018)”. The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Levelling up Housing and Communities.

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.

For 2021/22 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address the increase in Regulatory standards.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Audit Scale Fee - Code work	121,096	121,096	121,096
Scale Fee Variations:			
VFM arrangements	10,000 to 19,000	10,000 to 19,000	14,752
ISA 540 accounting estimates	4,400	4,400	9,793
Covid-19 grants, property valuations, etc.	TBC	TBC	48,873
Increased FRC challenge	TBC	TBC	8,750
Total current scale and additional fees	TBC	TBC	203,264
Non-audit services:			
Housing Benefits	TBC	TBC	30,600
Housing Capital Receipts	8,500	8,500	7,900
Teacher’s Pensions	14,500	14,500	13,500
Total non-audit services	TBC	TBC	52,000

Appendix B - Fees

Fees - London Borough of Hillingdon Pension Fund (the 'Pension Fund')

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Audit Scale Fee - Code work	16,170	16,170	16,170
Scale Fee Variation	TBC	TBC	20,782
IAS 19 protocol procedures	6,000	6,000	5,500
Total current scale and additional fees	TBC	TBC	42,452

Appendix B - Fees Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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