

London Borough of
Hillingdon

Annual Audit Letter to the
Members of the Council
on the 2010 Audit

Final

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Executive summary

This letter reports our conclusions from our audit of the London Borough of Hillingdon ("the Council") for the financial year 2009/10. The letter's main messages are:

The Council's financial statements	<p>We issued an unqualified opinion on the Council's 2009/10 accounts on 22 September, in advance of the statutory deadline of 30 September 2010.</p> <p>We have reported in Section 2 the significant recommendations that were identified from our audit work, which were reported to the Audit Committee in September 2010.</p>
The local government pension scheme annual report	<p>We issued an unqualified opinion on information in the Council's 2009/10 pension scheme annual report on 22 September 2010, ahead of the statutory deadline of 1 December 2010 for the publication of this report.</p>
Value for money conclusion	<p>We issued an unqualified conclusion on the Council's arrangements for securing value for money during 2009/10.</p>
Whole of Government Accounts consolidation return	<p>We provided an unqualified statement of assurance to the National Audit Office on the Council's consolidation return for the purposes of their audit of the Whole of Government Accounts ahead of the statutory deadline of 1 October 2010.</p>
Grants certification	<p>We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders on compliance with aspects of the terms on which funds have been claimed.</p> <p>We have met the certification deadline for all grant claims certified in the year up to the date of this letter and there are no matters which we consider need to be brought to your attention in respect of these grant claims.</p> <p>We have three grant claims still to certify and from our work to date expect our report on one of these grant claims, Housing and Council Tax Benefits Scheme, to be qualified. We also qualified this grant claim in the previous year but, given the complexity and volume of transactions that are required to be included within this grant claim, our experience is that a qualified report is not unusual.</p> <p>There are no matters that we consider need to be brought to your attention in respect of the remaining two grant claims.</p> <p>We will provide a separate, detailed letter to the Council in the New Year on the outcome of this work.</p>
Looking forward	<p>This is a challenging period for local government, with the recent Comprehensive Spending Review adding to existing local pressures caused by reductions in income from other sources. We have provided an overview in Section 4 of the audit approach to examining Hillingdon's response to these challenges in 2011 based on revised guidance from the Audit Commission. We have also highlighted two developments which are particularly pertinent to our audit responsibilities, being the abolition of the Audit Commission and the impact of this on future audit arrangements; and the transition to financial reporting under International Financial Reporting Standards from 2010/11.</p>

1. Introduction

The purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Council has relevant safeguards and properly accounts for public money.

This Letter will be published on the Audit Commission website at www.audit-commission.gov.uk and should also be posted on the Council’s website.

Responsibilities of the Appointed Auditor and the Council and scope of our work

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission which are available from www.audit-commission.gov.uk.

We have been appointed as Hillingdon’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (“the Code”). Under the Code, we review and report on:

- the Council’s accounts;
- the Council’s local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (“value for money conclusion”) in respect of its local authority functions.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

In earlier years we have also been required to assess how well the Council manages and uses its financial resources by providing scored judgements on the Council’s arrangements in three specific areas. This was known as the Use of Resources Assessment and formed a component of the Comprehensive Area Assessment (“CAA”) a performance assessment framework devised and operated by the Audit Commission. In 2010, we commenced, but did not conclude and report on this work, as a result of the abolition of the CAA before we could report on the Use of Resources Assessment work.

In addition to our responsibilities under the Code of Audit Practice we are also required to undertake grants certification work on behalf of the Audit Commission.

2. Financial reporting

Key issues arising from the audit of the Council's accounts

We reported separately to the Audit Committee in September 2010 on the issues arising from our 2009/10 audit and have issued an audit report providing an unqualified opinion on your accounts. We issued this report on 22 September 2010, in advance of the 30 September statutory deadline.

We have summarised below our areas of audit focus and the outcomes from our testing in these areas:

Area of focus	Outcome of our work
Grant income recognition	<p>The timing for the recognition of grant income will depend on the scheme rules for each grant.</p> <p>We performed focussed work on a sample of grants to confirm that expenditure was in line with the terms of the grants. We confirmed receipt of grants to relevant documentary evidence and reviewed the accounting treatment with reference to the requirements of the Statement of Recommended Practice ("SORP"). The results of our testing were satisfactory with the exception of the following:</p> <ul style="list-style-type: none">• Unaccompanied children's asylum grant – the Council recognised £769k of income in excess of the amount allowable under the SORP.• Grant benefit debtor – we identified that the housing benefit grant debtor was £807k understated when compared to the debtor recorded on the housing and council tax grant claim form. <p>Neither of the two exceptions above were corrected by management in the Statement of Accounts as they were not considered material.</p>
Pension liability	<p>The calculation of the gross pension liability is sensitive to small changes in assumptions in which there has been considerable volatility in the current economic climate. Overall, we concluded that the assumptions used to calculate the pension liability fell within a reasonable range.</p> <p>Based on our procedures we identified that the asset value included in the pension liability at year end was misstated. The value included in the Statement of Accounts is based on an estimate by the Council's actuary as, at the time of preparing the Statement of Accounts, the actual asset values are not known. The Council's actuary quantified the value of this as an overstatement of approximately £600k to the asset value at 31 March 2010. We confirmed that this is a reasonable assessment of the difference. This was not adjusted by management as it was not considered to be material.</p>
Property valuations	<p>The Council has a substantial portfolio of properties which are subject to a rolling revaluation programme. Some of the properties require the application of specialist valuation assumptions. The 'credit crunch' has affected property values and the Council is not immune to these effects.</p> <p>We performed focussed work on the valuation of fixed assets and reviewed the key assumptions made by the Council. Overall we concluded that the valuation was reasonable.</p>

2. Financial reporting (continued)

Area of audit focus	Outcome of our work
Bad debt provisions	<p>In our report to the Audit Committee on the findings from our 2008/9 audit we commented that evidence was limited to support provisions made against certain categories of debt and that available evidence suggested that individual provisions may be either under or over stated.</p> <p>During the 2009/10 audit we reviewed the Council's methodologies and assumptions used to calculate provisions and the evidence collected by officers to support its approach. Where applicable, we assessed management's consideration of whether provisions appropriately reflected the impact of the current economic conditions by reference to recent collection performance. Overall we concluded that the bad debt provision was reasonable.</p>
Valuation of Icelandic investments	<p>Changes in the value of the Icelandic investments are required to be accounted for in accordance with relevant technical accounting guidance.</p> <p>We considered the latest guidance from CIPFA and re-performed the required impairment calculation. Overall we were satisfied that the Council calculated the impairment amount in accordance with CIPFA guidance and that this was reflected appropriately in the Statement of Accounts.</p>
Accounting for local taxes	<p>The 2009 SORP introduced changed accounting and presentational requirements for local taxes to better reflect the position which the billing authority has as agent for the collection of other preceptors' shares of Council Tax and for the collection of National Non Domestic Rates ("NNDR"). We reviewed the Council's working papers on the new requirements and re-performed the calculations undertaken. Overall we concluded that the changes had been properly reflected in the Statement of Accounts.</p>

2. Financial reporting (continued)

Our report to the Audit Committee included one high priority, two medium priority, and five low priority control recommendations identified in the course of our audit of the Statement of Accounts. We have summarised below the high and medium priority recommendations:

Signed contracts with suppliers (High priority)

Background

We identified that the Hillingdon House Farm project (managed by the Major Construction Project team) does not have a formal signed contract in place with the construction company, although the project is valued at approximately £30m.

Recommendation

We recommended that signed contracts are obtained for all high-value projects with sign off on the contract not possible without prior approval from the legal department. We also recommended that the Council prioritise finalising any 2009/10 Internal Audit recommendations in this area.

Management response

The decision to proceed with construction based on a letter of intent was not taken lightly. It was a considered decision to proceed rather than accept a significant delay to the project with likely cost consequences.

The procurement of contracts for this particular scheme was managed by the Major Construction Project team within delegated powers in 2005/6. The decision was taken at a high level with full agreement from the Council's Legal department and external consultants Atkins. The form of the letter of intent was agreed by the Legal department.

The Council has not accepted the absence of a signed contract. It has made strenuous and continuous efforts throughout to achieve an agreed and signed contract, which is now close to completion.

Management believes that the Council still has legal recourse in this situation. Construction work proceeding without a signed contract is by no means unusual in the industry. The Courts assume an implied contract in a standard form, based on the Tender Documents and the letter of intent, and in many respects similar to the contract that would otherwise be in place.

However management does accept that contractual arrangements and change controls are essential to ensure the Council's interests are properly protected. To this end new control procedures, including contract signoff, are being implemented within the Major Construction Project team and across the Council generally.

Systems training (medium priority)

Background

We noted that a new system (ControCC) was implemented in Education & Children's Services in the year.

Recommendation

We recommended that, where the Council is implementing a new system, full staff training on all areas of functionality should be given as a priority in advance of the date the system goes live.

Management response

The Council does ensure staff training takes place prior to the introduction of new systems and has, in recent years, invested resources into providing specialist training facilities to accommodate this. The Council will endeavour to improve the quality of such training. Recent organisational changes within ICT have enabled the introduction of specific ICT Business Partners for each directorate who work collectively with the business areas, the project managers and the Learning Development teams to ensure that appropriate training is built into any IT systems implementation prior to going live.

2. Financial reporting (continued)

Property valuation under International Financial Reporting Standards (“IFRS”) (medium priority)

Background

2010/11 is the first year that the Council will be required to produce its Statement of Accounts in accordance with IFRS. We have begun discussions with the Council in relation to the audit work that will be required for the restatement of the IFRS opening balance sheet and comparative figures. We understand that it is the Council's intention to 'roll-forward' the 31 March 2010 valuation for this purpose.

Recommendation

We recommended that the property valuation team hold discussions with all relevant directorates on the IFRS transition requirements early in the process and that this should be evidenced in the valuation file. This will ensure the Council's assets are appropriately valued in accordance with IFRS.

Management response

Management accepts the recommendation and notes the following in relation to its school assets:

The Asset rolling programme for revaluations was carried out against the background of the 'Schools Organisation Plan' the 'Hillingdon Children and Families Trust Plan' and the Primary Capital Programme.

Hillingdon is experiencing considerable school places pressures and has a major school expansion programme underway. Hence the assumption that school assets are operating at capacity and no alternative use was relevant is indeed valid and therefore a MEA valuation would not be appropriate for these specific assets at this time.

Furthermore if reduction in school sizes were to take place, such as the removal of temporary classrooms, this would be picked up as adjustments to valuations as and when such changes take place.

In future the Education department can be specifically surveyed to identify potential surplus capacity for each school which would impact on a MEA valuation.

Key issues arising from the audit of the pension scheme accounts within the pension scheme annual report

We reported separately to the Pensions Committee on 22 September 2010 on our 2009/10 audit. There were no significant issues arising.

We issued an unqualified opinion on the pension scheme accounts within the pension scheme annual report on 22 September 2010, in advance of the deadline for this of 1 December 2010.

Whole of Government Accounts

Whole of Government Accounts (“WGA”) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's whole of government accounts return. Our report is used by the National Audit Office (“NAO”) for the purposes of their audit of the Whole of Government Accounts.

We were able to issue an unqualified report on the consistency of Council's consolidation return with the statutory accounts and the policies governing the preparation of the return in advance of the 1 October 2010 deadline.

3. Value for money conclusion

The scope of our work

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources in respect of its local authority functions. This is known as the value for money conclusion.

Value for money conclusion

We issued an unqualified value for money conclusion for the 2009/10 financial year. This conclusion drew on the evidence we gathered for the use of resources assessment as well as from the work of other regulators, consideration of the Council's Annual Governance Statement and other work performed by us.

We identified two areas of audit focus in relation to our value for money conclusion: contract procurement and partnership workings. We reported separately to the Audit Committee in September 2010 on these areas but have summarised below outcomes from our testing in these areas:

Area of audit focus	Outcome of our work
Contract procurement	<p>The Council is a large organisation with various departments and partnership arrangements. During our planning for the 2009/10 audit we were made aware of issues in relation to procurement at Hillingdon Grid for Learning not having been in accordance with Council policy, and considered this to be part of a wider risk across the Council.</p> <p>We reviewed a sample of contracts awarded in the year and also the results of Internal Audit's work in this area. Our testing identified that not all contracts were recorded on the Council's procurement system but that these were likely to be for smaller, immaterial amounts.</p> <p>In addition to our findings above, through our testing of property, plant and equipment we identified that there is not a formal signed contract in place with the construction company working on the Hillingdon House Farm project which was valued at approximately £30m. We raised a recommendation in relation to this in our September 2010 Audit Committee paper and have summarised this recommendation in Section 2 of this report.</p>
Partnership working	<p>Public agencies in all areas are expected to work effectively with each other in order to provide residents with effective and efficient services.</p> <p>We have reviewed the performance of the significant partnerships within which the Council participates. We have seen no evidence of significant legal claims or penalties in connection with any partnerships and the Council has demonstrated that it aligns priorities and achieves value for money from its partnerships arrangements.</p>

4. Looking forward

This is a challenging period for local government on a number of fronts. The outcome of the recent Comprehensive Spending Review will add to existing local pressures. We have commented in this Section on the changes which have been made to the scope of our work in 2011 to respond to this changed environment.

This is also a dynamic environment for local government because of new obligations being placed on local authorities and possible changes to their responsibilities and powers in some areas. We have highlighted two developments which are particularly pertinent to our audit responsibilities in this Section.

Value for money conclusion work in 2011

The Audit Commission has advised that in 2011 the auditors' statutory value for money conclusion ("VFM") will be based on the following two criteria specified by the Commission:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2011
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will discuss with officers the detailed approach to the work as part of our detailed 2010/11 audit planning.

Preparations for the implementation of International Financial Reporting Standards from 2010/11

In 2010/11, the Council will need to prepare its accounts for the first time under IFRS. We have discussed the progress of this restatement work with the Council and understand that the Council are progressing well and in accordance with the timetable for the restatement.

We are commencing the first stages of our audit work in respect of the Council's IFRS transition in November 2010.

Abolition of the Audit Commission

On 13 August 2010, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission. The proposed abolition will be from March 2012 and the Audit Commission has confirmed that there is no immediate change to your audit arrangements. New audit arrangements are likely to apply from the start of the 2012/13 financial year. Both we and the Audit Commission will keep you informed of further developments.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this letter is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This letter should be read in conjunction with the "Briefing on audit matters" circulated to you in September 2008 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Council and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the London Borough of Hillingdon, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Chartered Accountants
St Albans

29 November 2010

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2009 to 31 March 2010 are as follows:

	2010 £'000	2009 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of Hillingdon Council	374	374
Fees payable in respect of our work under the Code of Audit Practice in respect of the Local Government Pension Scheme	38	38
Fees payable in respect of the certification of grants	137	138
Total fees payable	<u>549</u>	<u>550</u>

Our work on the certification of grants is ongoing and the amount shown above is an estimate only.

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