

London Borough of
Hillingdon

Annual Audit Letter to the
Members of the Council
on the audit for the year
ended 31 March 2011

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Executive summary

This letter reports our conclusions from our audit of the London Borough of Hillingdon (“the Council” or “Hillingdon”) for financial year ended 31 March 2011. The letter’s main messages are:

The Council’s financial statements

We issued an unqualified opinion on the Council’s accounts for the year ended 31 March 2011 on 30 September 2011.

The local government pension scheme annual report

We issued an unqualified opinion on information in the Council’s pension scheme annual report for the year ended 31 March 2011 on 30 September 2011.

Value for money conclusion

We issued an unqualified conclusion on the Council’s arrangements for securing value for money for the year ended 31 March 2011.

Whole of Government Accounts consolidation return

We are required to provide a statement of assurance to the National Audit Office (“NAO”) on the Council’s consolidation return for the purposes of their audit of the Whole of Government Accounts.

We provided an unqualified statement of assurance ahead of the NAO’s deadline of 1 October 2011.

Certification of completeness of audit

In our audit report issued on 30 September 2011 we explained that the audit could not be formally concluded on that date until consideration of matters that had been brought to our attention had been completed.

These matters were subsequently resolved and a revised report was issued on 1 November 2011.

Grants certification

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. We will provide a separate, detailed letter to the Council on the outcome of this work. The grants letter will be provided alongside this letter to the December audit committee.

In our report to the audit committee in September, we reported a number of control observations and associated recommendations for management. Through our regular communication with management we understand that the majority of the recommendations reported have already been implemented. We will test the implementation as part of our planning procedures for the 2011/12 audit. There are no individually significant recommendations which we wish to bring to the attention of members here.

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.

The 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. This is available from www.audit-commission.gov.uk.

We have been appointed as Hillingdon’s independent external auditor 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.

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

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.

As an additional responsibility to those set out in the Code, we also undertake grant 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 Council's audit committee in September 2011 on the issues arising from our audit for the year ended 31 March 2011 and have issued an audit report providing an unqualified opinion on your accounts. We issued this report on 8 September 2011.

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

Area of focus	Outcome of our work
Valuation of fixed assets	<p>We focused our work in particular on the revaluation of the Council's stock of dwellings. The revaluation produced significant reductions in reported asset values as a result of a change in guidance on the discount factor to be applied to convert from an untenanted valuation to a social housing valuation.</p> <p>We identified a judgemental misstatement in relation to the valuation of assets using a methodology known as depreciated replacement cost. However, management did not adjust for this misstatement on the basis that it was unlikely to be material. Management has agreed to undertake an exercise covering the assets concerned in the 2011/12 year. We considered this approach to be reasonable.</p> <p>Aside from the issue noted above, we concluded that the valuation process was reasonable and that valuations reflected market conditions and appropriate guidance.</p>
Valuation of pension scheme liabilities	<p>Overall, the assumptions used by the Council to calculate the pension liability fall within a reasonable range. A significant credit caused by the change in inflation index to be applied to pension payments from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI), was presented in line with guidance issued by CIPFA and reflected the judgement that this was a change in individuals' benefits.</p>
Accounting for revenue grants	<p>Our testing of revenue grants found no significant issues in relation to the basis of recognition.</p>
Bad debt provisions	<p>Our testing of debtors and bad debt provisions identified a judgemental misstatement relating to the provision for sundry debts. This misstatement was not material and was not adjusted by management. Otherwise, our testing concluded that the provisions for sundry debtors were reasonable.</p>
IFRS transition: capital grants, short-term absences accrual, and lease accounting	<p>We performed specific testing on transitional changes including capital grants, short-term absences accruals, and lease accounting. No issues were identified from our testing.</p>
Segmental reporting	<p>We proposed a change to the structure of the segmental reporting note following discussions with management and review of information reported internally to management. This change has been accepted and the note has been amended in the latest set of draft financial statements.</p>

2. Financial reporting (continued)

Identified misstatements

Audit materiality was £7.8 million. Uncorrected misstatements would have decreased cost of services by £0.3m, decreased net assets by £2.9m and decreased unusable reserves by £3.2m. These misstatements related to the fixed asset valuation methodology used and a provision for sundry debts.

Additionally, a number of misstatements identified through our work were corrected and reflected in the published Statement of Accounts.

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

We reported separately to the Pensions Committee in September 2011 on our audit for the year ended 31 March 2011. There were no significant issues arising.

We issued an unqualified opinion on the pension scheme accounts within the pension scheme annual report in advance of the deadline for this.

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 its audit of the Whole of Government Accounts.

We provided an unqualified statement of assurance ahead of the NAO's deadline of 1 October 2011.

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 year ended 31 March 2011. 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 reported two recommendations to management which are summarised below:

Publication of summary strategic plan We suggested the Council should publish a strategic summary for residents which would cover key strategic priorities and how these priorities are being managed in the context of significant change. Management confirmed that this would be covered in an article that is published annually in the autumn edition of Hillingdon People. This article has now been published.

Amendment to annual governance statement We suggested the Council should update the annual governance statement which is published alongside the accounts, to include more explicit narrative of control weaknesses identified during the year in relation to capital project management and creditors. This was accepted by management and the published annual governance statement included these changes.

4. Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by Central Government or a Public Authority to a Local Authority. The Commission, rather than its appointed auditor, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

We will issue a separate Annual Audit Letter in respect of the grants programme which will be presented to the December audit committee alongside this report.

5. 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.

Code of practice on local authority accounting in the United Kingdom 2011/12

Background The 2011/12 Code is the first annual update of the Code since the International Financial Reporting Standards were adopted as the basis for public sector accounting. The 2011/12 Code clarifies the requirements in a number of areas where uncertainty was identified in the 2010/11 Code and introduces new or amended accounting practices in a number of areas.

Effective date Effective for financial years commencing on or after 1 April 2011.

Pensions

Background Some recent changes to accounting standards will affect some areas of presentation in the financial statements. Most significant for Harrow is that the expected return on assets currently recognised in the comprehensive income and expenditure statement will be replaced with a 'net interest cost', which is calculated by applying a discount rate to the net liability/asset of the scheme. There will also be extended disclosure requirements – which give more disclosure, especially around risks and uncertainty.

Effective date Effective for financial years commencing on or after 1 April 2013.

Consultation - accounting for non-current schools' assets

Background CIPFA/LASAAC have put out to consultation its proposals for developing the 2011/12 Code in relation to non-current schools' assets.

The issue of the accounting treatment of non-current assets used by the different categories of maintained schools has been subject to debate for a number of years, without a firm conclusion being reached. The debate arises because the circumstances of each of the categories of maintained schools, such as ownership and access to economic benefits and service potential are different. The move to IFRS has resulted in authorities and auditors reconsidering the issue.

Effective date Effective for financial years commencing on or after 1 April 2011.

Bribery Act

Background In April 2010, the Bribery Act was passed into law in the UK and was effective from July 2011. Under the provisions of the Act, the enforcement authorities have at their disposal new and more easily applied offences which the Council will need to factor into their risk management processes. Importantly, the Act contains an offence of failing to prevent a bribe being paid on their behalf by an 'associated' person. Associated persons could include not only employees, agents or subsidiaries but a wide group of parties who perform services on behalf of the Council creating a potentially significant risk of liability for the Council under the Act.

The practical impact is that the Council should review their anti-corruption policies to ensure regulatory risk is mitigated.

Effective date Already effective. We understand the Council is already responding to these new requirements.

5. Looking forward (continued)

Code of practice on transport / infrastructure assets

Background CIPFA has published the Code of practice on transport / infrastructure assets (the Transport Code) which suggests a change in the financial reporting valuation of infrastructure assets. Infrastructure assets are currently valued on a historic cost basis, with the transport Code suggesting a move to a depreciated replacement cost (DRC) based valuation. The transport Code suggests the withdrawal of the current method of historic cost accounting for infrastructure assets from 2012/13.

The consultation on the 2012/13 Financial Reporting Code (the financial Code) includes the option for a voluntary disclosure of infrastructure assets on a DRC basis but currently maintains the required historic cost valuation for these assets.

Effective date Effective for financial years commencing on or after 1 April 2012.

Self-financing for council housing

Background The reform of council housing was included as a Coalition agreement commitment. Significant changes to the current system are expected with a planned implementation date of April 2012. Currently Councils receive a housing subsidy from government. The Housing subsidy is calculated by the government based on estimated income and spending for each local authority's HRA. The calculation involves a number of assumptions. Where the government's subsidy estimates show that expenditure for a local authority is greater than its income, then a subsidy is paid to the local authority. However, where the government's subsidy estimates show that income is greater than expenditure, then the local authority makes a payment to the government. This calculation changes annually. The new proposals suggest an end to the current subsidy system.

Effective date A planned implementation date of April 2012.

6. 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. This report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in February 2010 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 Hillingdon 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 Hillingdon Council, 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

25 November 2011

Appendix: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2010 to 31 March 2011, and in the previous year, are as follows:

	2010-11 £'000	2009-10 £'000
Fees payable in respect of the Council's accounts audit	359	368
Fees payable in respect of the certification of grants	155*	155
Fees payable in respect of the pension scheme	37	38
Total fees payable in respect of our role as appointed auditor	551***	561
DJD contract monitoring project**	-	-
Total non-audit fees payable	-	-

* Our work in respect of the certification of grants for 2010/11 is ongoing and the amount shown above is an estimate only based on the 2009/10 fees. We have regular dialogue with officers to keep them informed of progress for this work. We will issue a letter summarising the results of our work in early 2012 when complete.

** In our audit plan presented to you in February 2011 we highlighted that one of our divisions, Drivers Jonas Deloitte, submitted a proposal to the Council to monitor the delivery of a building contract for the expansion of six primary schools. We have since been informed that Drivers Jonas Deloitte was successful in this proposal and that work has now started. We do not consider this to compromise our independence as external auditor to the Council. We have also received approval from the Audit Commission to undertake this work.

*** The fees disclosed above do not reconcile directly to the audit fees disclosed in the financial statements. The audit fees disclosed in the financial statements exclude pension scheme costs noted above but include £20k of costs which related to the 2009/10 audit but were invoiced in the 2010/11 financial year.

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