

Annual governance report

London Borough of Hillingdon

Audit 2005/06

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

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. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

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AIB name

Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance for the London Borough of Hillingdon summarising the conclusions from our audit work. For the purposes of this report, the Council's Corporate Services and Partnerships Policy Overview Committee is considered to fulfil the role of those charged with governance and references to the Corporate Services and Partnerships Policy Overview Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Corporate Services and Partnerships Policy Overview Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the London Borough of Hillingdon (the Council) for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principal purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Corporate Services and Partnerships Policy Overview Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Corporate Services and Partnerships Policy Overview Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Council's financial statements and Pension Fund accounts; and
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. This Annual Governance Report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our other areas of work including; inspection, use of resources assessment for 2006 and grant claims' certification programme, will be reported in the Relationship Manager Letter at the start of next year.
- 8 We have issued separate reports during the year having completed aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

Key messages

Financial statements

- 9 Our work on the financial statements is now substantially complete, although there are still some outstanding issues to be resolved where we are waiting for working papers and or our audit procedures are ongoing. The main areas are outlined at paragraph 13. Should any further matters that require reporting arise in concluding the outstanding work, we will raise them with the Chair of this committee.
- 10 Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).

Use of resources

- 11 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate being able to issue an unqualified conclusion on the use of resources by 30 September (a draft report is attached at Appendix 6).

Financial statements

- 12 We are required to give an opinion on whether the Council 's financial statements present fairly:
- the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended; and
 - the financial transactions of its Pension Fund during the year ended 31 March 2006 and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Status of the audit

- 13 Our work on the financial statements is now substantially complete, although there are still some outstanding issues to be resolved. The main areas that we are working closely with officers to verify and clear are:
- grant income in relation to education 'Teachers threshold' grant claims (certification ongoing of resubmitted claim);
 - disclosure of long term debt, treatment of a fixed asset impairment and some supporting working papers for the Pension Fund;
 - the debtor balance with Hillingdon Primary Care Trust.
- 14 Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of this committee (or alternative arrangements as appropriate).

Matters to be reported to the Corporate Services and Partnerships Policy Overview Committee

- 15 We have the following matters to draw to the Corporate Services and Partnerships Policy Overview Committee's attention.

Expected modifications to the auditor's report

- 16 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report.

Uncorrected misstatements

Our audit did not identify any significant misstatements in the financial statements that were not adjusted for by management.

Adjusted misstatements

- 17 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material and or significant. We therefore draw your attention to the list of misstatements that management has adjusted in the financial statements in Table 1 below.

Table 1 Adjusted misstatements in the financial statements

Details of material and/or significant adjustments made to the financial statements

Issue	Value of misstatement £000	Impact on surplus/(deficit) £000
<p>Collection Fund</p> <p>National Non domestic Rates - the provision needed in respect of bad and doubtful debt has been reviewed and a further £2.3 million debt has been assessed as being required. Significant amounts of aged debt (over 6 years) however are still in the books but are considered recoverable. The Council needs to prioritise their recovery. The adjustment affects the collection fund only and does not impact on the Fund's deficit as the provision will be netted of the Council's contribution to the NNDR national pool.</p>	2,259	None
<p>Debtors</p> <p>Income from grant claims - the following 'post balance sheet events' have been adjusted for by the Council resulting from:</p> <ul style="list-style-type: none"> • late notification of additional grant of £835k for 2005/06 for the local authority business growth incentive scheme; • certification of the DfES grant claim for unaccompanied asylum seeking children leaving care (ongoing) reducing income due by £990k. The provision made in 	835	835

Issue	Value of misstatement £000	Impact on surplus/(deficit) £000																		
the statements for uncertainties surrounding income of £1.2 million is sufficient to cover this and also a potential write off of in the region of £300k due from the Home Office following its audit of the Council's grant claims.																				
Fixed assets The Council has disclosed £17.5 million of fixed asset impairments at note 1 to its balance sheet. Of this total, £9 million relates to reductions in values resulting from changes to the estimation techniques used to value the assets rather than reductions due to impairment of the asset. This does not impact on the balance sheet.	9,033 to note 1	NIL																		
Cash flow statement A number of significant offsetting adjustments have been made to cash outflows in the cash flow statement for 2005/06 and in restatement of 2004/05. The balancing items are represented as adjustments to 'Other operating cash payments'.	<table border="1"> <thead> <tr> <th data-bbox="663 920 887 981"></th> <th data-bbox="887 920 975 981">2004/05 (£000)</th> <th data-bbox="975 920 1136 981">2005/06 (£000)</th> </tr> </thead> <tbody> <tr> <td data-bbox="663 981 887 1041">Cash paid to employees</td> <td data-bbox="887 981 975 1041">+ 8,998</td> <td data-bbox="975 981 1136 1041">+ 29,730</td> </tr> <tr> <td data-bbox="663 1041 887 1102">Housing benefits paid out</td> <td data-bbox="887 1041 975 1102">+ 7,728</td> <td data-bbox="975 1041 1136 1102">- 18,841</td> </tr> <tr> <td data-bbox="663 1102 887 1162">RSG/NNDR payments</td> <td data-bbox="887 1102 975 1162">0</td> <td data-bbox="975 1102 1136 1162">- 53,367</td> </tr> <tr> <td data-bbox="663 1162 887 1223">Other operating cash payments</td> <td data-bbox="887 1162 975 1223">- 16,726</td> <td data-bbox="975 1162 1136 1223">+ 42,478</td> </tr> <tr> <td data-bbox="663 1223 887 1279">Net effect</td> <td data-bbox="887 1223 975 1279">0</td> <td data-bbox="975 1223 1136 1279">0</td> </tr> </tbody> </table>			2004/05 (£000)	2005/06 (£000)	Cash paid to employees	+ 8,998	+ 29,730	Housing benefits paid out	+ 7,728	- 18,841	RSG/NNDR payments	0	- 53,367	Other operating cash payments	- 16,726	+ 42,478	Net effect	0	0
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Recommendation

R1 Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors.

R2 Review arrangements for the recovery of National Non-Domestic rates and prioritise the recovery of significant aged debt; ensure the assessment of the bad debt provision required is assessed in accordance with the SORP.

Material weaknesses in internal control identified during the audit

- 18 Our audit identified a weakness in the system of accounting and financial control in relation to the reconciliation of the Council's bank account. The year end bank reconciliation contained a number of discrepancies including: a reconciling item for unpresented salaries and wages cheques which could not be supported, discrepancies between school bank accounts and the balances shown on the Council's ledger and a small unexplained difference between the cash book and the payroll. The reconciliation of the Council's bank account is a fundamental control designed to ensure the integrity of the financial statements. The Council should ensure that the reconciliation is fully supported and discrepancies are investigated and resolved.
- 19 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

Matters specifically required by other auditing standards

20 Other auditing standards require us to communicate with you in other specific circumstances including:

- where we suspect or detect fraud;
- where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
- non-compliance with legislative or regulatory requirements and related authorities.

There are no matters relating to other auditing standards that we need to report to you.

Any other matters of governance interest

21 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 2 below.

Table 2 Other matters of governance interest

There is another matter that we would like to bring to the attention of those charged with governance

Auditor responsibility	Impact
<p>Statement of internal control</p> <p>The auditor reviews the statement of internal control for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.</p>	<p>Whilst there have been improvements to Council's arrangements for preparing the statement of internal control, most notably with the establishment of a management group to oversee its preparation; the review of sources of assurance available to support the statement needs to be more systematic in absence of a full assurance framework.</p> <p>For example, continuing weaknesses previously reported by the Council in relation to the reconciliation of school bank accounts, were not formally considered for inclusion in the statement of internal control.</p>

Letter of representation

22 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements of the Council and its Pension Fund. The text of the required letter of representation is included at Appendix 7.

Next steps

- 23 We are drawing these matters to the Corporate Services and Partnerships Policy Overview Committee's attention so that:
- you can consider them before the financial statements are certified;
 - the representation letter can be signed on behalf of the Council and those charged with governance before we issue our opinion on the financial statements.

Use of resources

Code conclusion

- 24 The Code requires us to issue reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). Our vfm conclusion considers the arrangements in place during 2005/06 and does not reflect improvements made after this for example by the new Administration. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 25 Our work in reaching the value for money conclusion is fully integrated with our work on the use of resources assessment and on providing the opinion on the Council's best value performance plan. The use of resources assessment is a qualitative assessment of the effectiveness of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial reporting, financial management, financial standing, internal control and value for money.
- 26 We have completed our work in relation to the use of resources and there are no matters which we wish to draw to the attention of the Corporate Services and Partnerships Policy Overview Committee.
- 27 We have now completed our work in order to form a conclusion in relation to the use of resources. The key findings from our work on the use of resources criteria are summarised in the table and text below.

Table 3 Arrangements for securing economy efficiency and effectiveness

The Council has satisfied all the criteria

Criteria	Satisfied?
The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	✓
The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	✓
The body has put in place arrangements: <ul style="list-style-type: none"> • for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members/ the board; and 	✓
<ul style="list-style-type: none"> • to monitor the quality of its published performance information, and 	✓

Criteria	Satisfied?
to report the results to (board) members.	
The body has put in place arrangements maintain a sound system of internal control.	✓
The body has put in place arrangements to manage its significant business risks.	✓
The body has put in place arrangements to manage and improve value for money.	✓
The body has put in place: <ul style="list-style-type: none"> a medium-term financial strategy, budgets and a capital programme that is soundly based and designed to deliver its strategic priorities; 	✓
<ul style="list-style-type: none"> arrangements to ensure that its spending matches its available resources; 	✓
<ul style="list-style-type: none"> arrangements for monitoring performance against budgets, 	✓
<ul style="list-style-type: none"> arrangements for the management of its asset base. 	✓
The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	✓

Audit Commission

- 28 In addition to the summary comments in table 3, we have some more detailed observations to draw to your attention below:

Strategic objectives

- 29 The Council has put in place adequate arrangements for setting, reviewing and implementing its strategic and operational objectives. It has agreed a vision and a broad set of priorities for the area which are set out in its community strategy. These priorities are reflected in the council plan which also incorporates internal improvement themes. The Council is progressing work to make the relative importance of its broad ambitions and priorities clearer and to communicate these in its published plans and to staff, members, partners and the public.

Consultation

- 30 The Council has a number of channels for communicating with service users and other stakeholders including partners, and there are various monitoring arrangements to ensure that key messages about services are taken into account. However, the Council acknowledges that it needs to develop its approach to communications and consultation and make better use of information. As a result it is currently undertaking a major review of information and consultation as part of its corporate improvement agenda post corporate assessment.

Performance management

- 31 The Council has put in place adequate arrangements for monitoring of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to members. Monitoring of best value key performance information, activity and outcomes against targets is systematic and routine. Underperformance is effectively addressed through performance clinics and high risk areas or cross cutting themes for which a corporate response is necessary receive dedicated support. The effectiveness of scrutiny during 2005/06 was mixed and engagement with the cabinet was inconsistent and so its potential has not been fully realised. The new Administration has revised the Council's arrangements and now has policy overview committees and scrutiny. We will comment on the effectiveness of these arrangements in our next Governance report. The Council, with its partners, should also continue with its work in developing longer term tangible outcomes and targets for the community strategy. This will provide clarity on the level of performance and improvement that is being sought for the borough and its communities.

Data quality

- 32 Reliable, accurate and timely data is a key requirement of councils for decision making and measuring performance. As part of our 2006/07 Annual Audit and Inspection plan, we have reviewed the Council's arrangements to manage data quality.
- 33 The Council has adequate arrangements in place to monitor the quality of its published performance information, and to report the results to members. Responsibilities for data quality are defined although no one at a senior manager level has been designated as having overall responsibility. There are well established processes for data collection and verification supported by detailed guidance and operational procedures which are periodically updated. The Council has had a strong focus on improving underperformance against BVPIs, and this has involved officers and members reviewing data quality and systems, although there has not been a formal programme of reviews of systems and controls.
- 34 The Council needs a strategy for managing data quality more broadly than BVPIs with objectives against which progress can be assessed. At present there is limited formal reporting of data quality and there is no corporate training programme either. There are effective controls in place for data reporting but data returns submitted for audit are not always supported by a clear and complete audit trail with complete working papers.

Internal control

- 35 The Council has put in place arrangements to maintain a sound system of internal control. Our work however has identified some areas for improvement specifically in relation to the governance arrangements over the Council's pooled budget with Hillingdon Primary Care Trust for learning disability services, our review of Internal Audit and of the Council's arrangements for the co-ordination of its grant claims.

- 36 The Council acts as host body for the learning disabilities pooled budget with Hillingdon Primary Care Trust and has a partnership agreement with the Primary Care Trust to govern its operation. This agreement has not been formally signed or subject to review since it was established in 2003/04 and we have been unable to find a record of the Partnership Board agreeing the annual partner contributions prior to the start of each year. In addition, officers have recently recalculated the contributions for 2004/05 as shown in the memorandum account and increased the contribution of the Primary Care Trust by £700,000 and made a corresponding decrease in the Council's contribution. The Council needs to notify the Primary Care Trust of this error and the revision needed to the memorandum account.
- 37 As part of the role of host body, it is the Council's responsibility to ensure good governance arrangements and transparency in relation to the budget's financial position. It is also prudent given the financial health of the partners, providing assurance that the respective contributions have been agreed and budgeted for.
- 38 Our review of Internal Audit concluded that the Internal Audit function meets the organisational and operational standards as set out in the CIPFA Code of Practice in Local Government and therefore supports the Council's system of internal control. Arrangements are being strengthened and in particular a new Head of Internal audit was appointed at the end of 2005/06. However, some areas were identified for improvement. Specifically, documentation on all key financial systems has not been maintained to support the annual statement of assurance on the Council's internal control environment.
- 39 As well as our assessment of Internal Audit against the CIPFA Code of Practice, we reviewed their working papers to assess whether we are able to place reliance on Internal Audit's work to gain an understanding of the financial systems. We identified some areas where the quality of the system documentation could be improved and where we could not place full reliance on internal audit's work. These aspects have been discussed with the new head of Internal Audit in order that they may be addressed in 2006/07.
- 40 The Council submits grant claims for certification totalling some £380 million of expenditure; consequently it is important that it has effective arrangements in place to manage this process. In general, with some exceptions, claims are produced to a good standard and working papers are adequate. However, there is scope to improve the Council's overall arrangements for co-ordinating and managing claims. These relate to improving the control environment and ensuring a scheme of delegation is established in relation to the approval of qualification letters and adjustments to the claims, and to ensure claims are submitted on time. Officers are acting to address our recommendations.

Improving value for money

- 41 The Council has put in place adequate arrangements for managing and improving value for money and for 2006/07 has put together a programme for achieving efficiency savings totalling £3.5million, which forms part of a larger savings package. Overall there is a reasonable balance between the Council's costs and performance allowing for the local context, local policy decisions and external factors. Having Heathrow airport within the borough clearly impacts on services and costs and the Council is developing its understanding of this. It has a number of high costs services, particularly in social services and is taking steps to address these through modernisation and re-provision. The Council has put in place sound processes for monitoring and reviewing vfm and Members and managers are applying a greater degree of challenge to existing service arrangements and budget setting processes.

Financial strategy, budget setting and monitoring

- 42 The Council has continued to make progress to improve its arrangements for financial management, introducing sound systems of budgeting and forward planning, delivering financial targets and making contributions to reserves. However, the Council experienced a significant financial set back during 2005/06 when the Department for Education and Skills (DfES) retrospectively altered the grant conditions of the leaving care grant which provides for unaccompanied asylum seeking children beyond their eighteenth birthday. This reduced the Council's grant receivable in respect of 2004/05 and 2005/06 by some £5.3 million (with a further impact on 2006/07). In addition, further adjustments, referred to elsewhere in this report, have been made to grant income receivable.
- 43 As a consequence, the Council's general fund balance at the year end decreased by £3.5 million to £4.1 million (*TO BE UPDATED*). This is outside of the Council's recommended range for the general fund balances of between £8.1 million to £16.7 million. The Council is planning to restore balances to £6.5 million by the end of 2006/07 and £8 million by 2007/08.
- 44 Excluding this reduction in expected grant income, the outturn for 2005/06 was under budget by some £1.55 million. Whilst this is strong outturn, the under spend actually masques some significant variances, evidencing continuing pressures on the budget, particularly in relation to some demand led budgets in social services. The 2006/06 budget will need robust monitoring with prompt corrective action to ensure a positive outturn, particularly in the context of the Council's ambitious programme to achieve savings totalling some £11.7 million.
- 45 The Collection Fund incurred a deficit for the year of £364,000, increasing the carry forward deficit to £764,000. The deficit is net of a positive variance of £870,000 which largely relates to an over provision for non-collection. The main contributory factors to the deficit are the increases in single persons' discounts and disabled relief. Officers are taking steps to improve their arrangements for forecasting the level of council tax collectable when setting the council tax base and to monitor the position on a more regular basis to contain the risk of significant variances which have been occurring todate.

Recommendations

R3 As part of its role of host body to the Learning Disabilities pooled budget, the Council should ensure the maintenance of good governance arrangements.

R4 Maintain documentation of the Council's financial and information systems sufficient to support the Head of Internal Audit's annual statement of assurance on the Council's internal control environment.

R5 Ensure the 2006/07 budget is subject to robust monitoring, taking prompt corrective action to address variances and so ensure a positive outturn at the year end.

Use of auditors' statutory powers

- 46 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

Table 4 Use of statutory powers

Insert text

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Council's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 47 This report has been discussed and agreed with the Acting Interim Chief Executive and Director of Finance. A copy of the memorandum will be presented at the Corporate Services and Partnerships Policy Overview Committee on 21 September 2006.
- 48 The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 49 The Council has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

L J Kidner
District Auditor & Relationship Manager

15 September 2006

Appendix 1 – Audit responsibilities and approach

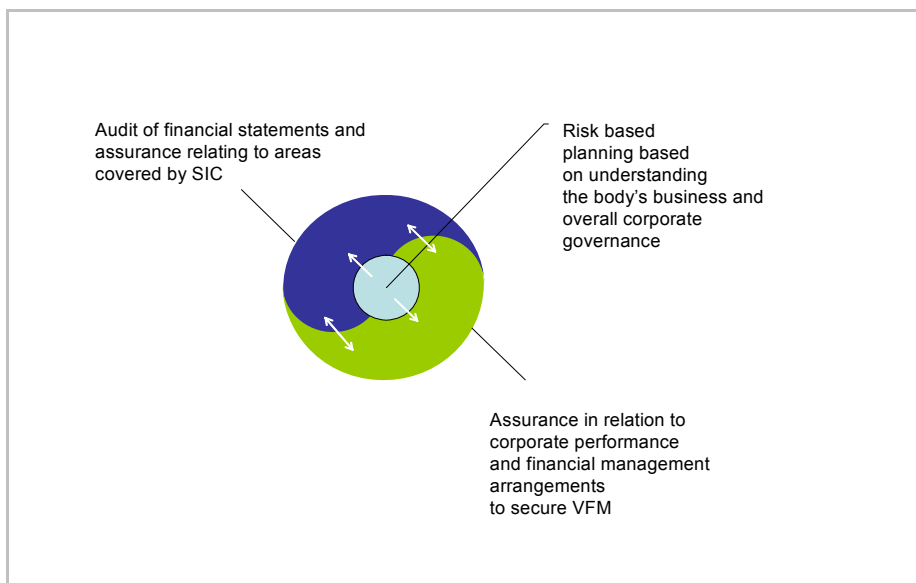
Audit objectives

50 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

51

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 52 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Council which had most impact on our opinion. These included:
- the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 53 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The keys risks that we identified include:
- uncertainty over elements of grant income; and
 - financial position of the Council's partner, Hillingdon Primary care Trust.
- 54 In addition, as the Council prepares group financial statements in respect of Hillingdon Homes Ltd, we have also considered whether it is necessary to communicate to you such matters brought to the attention of those charged with governance of each body within the group by its auditors. Only those matters which we judge to be of significance in the context of the group are brought to your attention.

Approach to audit of arrangements to secure value for money

- 55 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
- corporate performance management; and
 - financial management arrangements.
- 56 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 57 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 58 The potential sources of assurance when reaching the value for money conclusion include:
- the Council's whole system of internal control as reported in its statement on internal control;
 - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
 - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
 - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
 - other work necessary to discharge our responsibilities.

Appendix 2 – Audit reports issued

Table 5

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	April 2005	April 2005	Management
Review of arrangements for compiling grant claims	July 2006	July 2006	Management
Interim audit memorandum	September 2006	draft - September 2006	Management
Payroll implementation - interim review	September 2006	September 2006	Management
Annual governance report	September 2006	September 2006	Corporate Services and Partnerships Policy Overview Committee
Opinion on financial statements	September 2006		Corporate Services and Partnerships Policy Overview Committee
Value for money conclusion	September 2006		Corporate Services and Partnerships Policy Overview Committee
Final accounts memorandum	November 2006		Management
Use of resources judgements	December 2006		Audit committee
BVPP report	December 2006		Audit Committee
Performance reports	As agreed		Management / Audit Committee

Appendix 3 – Fee information

Table 6

Fee estimate	Plan 2005/06	Actual 2005/06
Accounts	236	236*
Use of resources	112	112
Total audit fees**	348	348
Voluntary improvement work*	0	0

* To be updated following the conclusion of the accounts audit

** The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 59 We are required by the standard to communicate following matters to the Audit Committee:
- the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 60 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

Appendix 5 –Independent auditor’s report to London Borough of Hillingdon

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of the London Borough of Hillingdon and its Group for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Group Account and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to the London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer’s responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Council and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the London Borough of Hillingdon in the preparation of the financial statements, and of whether the accounting policies are appropriate to the London Borough of Hillingdon's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the London Borough of Hillingdon as at 31 March 2006 and its income and expenditure for the year then ended; and

London Borough of Hillingdon

- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

L J Kidner

District Auditor

Audit Commission

1st Floor, Millbank Tower

Millbank

London SW1p 4HQ

September 2006.

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Appendix 6 – Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's Responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

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Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, the London Borough of Hillingdon made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the Council's best value performance plan for the financial year 2005/06 on 23 December 2005. I did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

L J Kidner
District Auditor
Audit Commission
1st Floor, Millbank Tower
Millbank
London SW1p 4HQ

September 2006.

Appendix 7 – Letter of representation

London Borough of Hillingdon - Audit for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Hillingdon, the following representations given to you in connection with your audit of the Council's financial statements and pension fund for the year ended 31 March 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements and pension fund which present fairly and for making accurate representations to you.

Asset values

The London Borough of Hillingdon has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the London Borough of Hillingdon have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all public members meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties; and

London Borough of Hillingdon

- there is no significant pending or threatened litigation regarding single status claims.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error. There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

DRAFT

Post balance sheet events

Since the date of approval of the financial statements by the Council on 29th June 2006, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements and the pension fund other than those notified to you and referred to be you in your Annual Governance Report.

Signed on behalf of London Borough of Hillingdon

Signed

Name

Position

Date

London Borough of Hillingdon

Appendix 8 – Action Plan

Page no.	Recommendation	Responsibility	Agreed	Comments	Date
10	R1 Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors.				
10	R2 Review arrangements for the recovery of National Non-Domestic rates and prioritise the recovery of significant aged debt; ensure the assessment of the bad debt provision required is assessed in accordance with the SORP.				
19	R3 As part of its role of host body to the Learning Disabilities pooled budget, the Council should ensure the				

Page no.	Recommendation	Responsibility	Agreed	Comments	Date
	maintenance of good governance arrangements.				
19	R4 Maintain documentation of the Council's financial and information systems sufficient to support the Head of Internal Audit's annual statement of assurance on the Council's internal control environment.				
19	R5 Ensure the 2006/07 budget is subject to robust monitoring, taking prompt corrective action to address variances and so ensure a positive outturn at the year end.				

