

Annual Governance Report

May 2008



Annual Governance Report

London Borough of Hillingdon

Audit 2006/07

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.
- 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, 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

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.

Copies of this report

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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case, the Audit Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom and Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. 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.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit Committee on 18 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved; and
 - approve the representation letter on behalf of the Authority and those charged with governance.
- 5 Our work during the year was performed in line with the plan that we agreed with the Chief Executive on 23 March 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

Key messages

- 6 Our work on the financial statements is in progress. At this stage of our audit, there are a number of significant queries outstanding with officers, together with audit testing which need to be completed to enable an opinion to be given. In particular, there is significant testing to be completed in respect of Income and Expenditure (I&E) Account, primarily in respect of payroll. At this stage of our audit, we are unable to say whether our opinion on the Council's financial statements will be unqualified. As a result, our report does not include our draft opinion. We will provide the Audit Committee with a verbal update on 18 September. As the audit continues to progress, there may be further matters arising. Any such matters, in particular affecting the audit opinion, will be brought to the attention of the Chairman of the Audit Committee.
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is complete. At this stage of our audit, we propose issuing an unqualified conclusion on the use of resources by 30 September and our draft report is attached at Appendix 4. We also draw your attention to the completion of our audit of arrangements for integrated children's services.
- 9 As part of my audit, I am required to consider whether there are any issues arising which would require formal public reporting and a public response from the Council (known as a section 8 report or section 11 recommendations). No such issues have arisen.

Audit status

- 10 At the date of issue of this report, our audit work remains in progress and is also subject to our internal management review process.
- 11 In addition to completion of testing, we are awaiting provision of information and resolution of queries from officers, as identified in paragraph 16. Key areas of work to be completed include:
 - I&E account, including cut-off testing; analytical review; payroll substantive testing;
 - capital commitments;
 - cash flow statement; and
 - group accounts, including receipt of Hillingdon Homes audited accounts and an assurance statement requested from their external auditors.
- 12 We are also required to give an opinion that the Council's accounts are consistent with a consolidation pack submitted to the Department for Communities and Local Government as part of the Whole of Government by 1 October 2007. Our work in this area is in progress and is subject to the completion of our work on the main statements.

Accounts and Statement on Internal Control

- 13 Our work on the financial statements is in progress as outlined above.
- 14 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 15 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. The final draft of the letter of representation has been attached as Appendix 5.

Outstanding information

- 16 At this stage of our audit, we have one significant area where information is required from the Council prior to us being able to give an opinion. This concerns the impact of weaknesses in the reconciliations for payroll and pensions. Both the Council's recent internal audit report and our audit report of January 2007 have identified control weaknesses regarding the introduction of the payroll system, which contributes to both the Council's financial statements and pension fund. The weaknesses mean that it is not possible to take audit assurance from the system for producing the statement of accounts without undertaking additional substantive testing. Information has recently been provided by the Council which is currently being audited. This information is essential to enable us to form our audit opinion.
- 17 Whilst this is the most significant item for which we require evidence to enable an opinion to be given, there are also outstanding requests for information in respect of analytical review queries and cut-off testing to support the I&E account.

Recommendation

R1 The Council needs to ensure that outstanding audit requests concerning the opinion are cleared as a priority.

Unadjusted misstatements

- 18 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements to bring to your attention.

Adjustments to the financial statements

- 19 We are also required to bring to your attention material and or significant misstatements that management are proposing amending where we consider them relevant to your wider governance responsibilities. The key changes are summarised below, with the detail in Appendix 6.

Changes with an impact

Fixed assets

- council dwellings valuation error identified by officers showing fixed assets understated by £35m on the balance sheet;
- incorrect treatment of disposal of Council dwellings resulting in an impact to the Income and Expenditure account of £5.9m, which would increase the surplus on the I&E; and
- the balance sheet valuation of council dwellings has not taken account of the commitment to transfer 145 properties to a housing association. Officers have recently provided working papers and agreed that the impact of this commitment is that the valuation of council dwellings is overstated by £9.7m and agreed that an amendment should be made. This is still subject to audit.

Balance sheet – debtors and creditors

- Both debtors and creditors are overstated by £3.5m in respect of an airport health control unit account.

Material and non-trivial presentational & disclosure changes

Income and Expenditure

- Adjustment to the Reconciliation on the deficit to include £15m of Employers contributions payable to the Pension fund.
- Classification adjustment of £1.9m in respect of HRA interest.

Cash flow statement

- Material adjustments to the analysis of the cashflow statement.

Pension fund

- Various adjustments including £12m adjustment to note 9.

Accounting practices

- 20 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

Quality of working papers and management review of financial statements prior to audit - general

- 21 We agreed a working protocol with the Council for the audit of the financial statements, which included a detailed list of working papers to be provided at the outset of the audit which had been quality checked by management. However, there has been limited availability of key working papers, with issues arising suggesting that the review process could be strengthened. This has delayed the audit process and contributed to the increased amount of significant errors found in the financial statements. It has also contributed to additional resources being required, both in officer and audit time, to provide sufficient evidence to complete the audit. We anticipate issuing an additional audit fee to the Council; however, it is too soon to quantify the fee.

Recommendation

R2 Review the year end closure arrangements and quality controls for producing the financial statements to ensure the accounts presented for approval are free from significant errors, SORP compliant and supported by a robust set of working papers in accordance with the agreed protocol.

Systems of internal control

- 22 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. We have two specific points to bring to your attention below:

Payroll system - general

- 23 During 2006/07, the Council has replaced its existing payroll system (DELPHI) with a new integrated people management system (ResourceLink). We carried out a review over two phases to ensure that the financial statements generated from the newly implemented payroll and HR system could be relied upon and that the risk of financial misstatement is minimised. Our audit has found weaknesses in respect of:
- a failure of the Authority to reconcile differences identified in records between the two systems prior to the decision to go live with ResourceLink and a lack of testing against the stated functionality of the system;
 - there is limited evidence of formal reconciliations between payroll and the general ledger have been undertaken during 2006/07;

- there is limited evidence of formal reconciliations of pension payments between the payroll system and the pensions administration system;
- there are unreconciled variances in respect of employer contributions between the payroll system and the general ledger; and
- limited records have been maintained to support the DELPHI payroll system used at the start of the financial year.

24 The weaknesses mean we cannot take assurance that an effective control was in operation on which we could place reliance to generate accurate information for inclusion in the financial statements and the pension fund accounts. The impact of these weaknesses on our opinions is:

- the variances concerning employer contributions need to be investigated by the Council;
- additional substantive testing is being undertaken by audit to establish whether there is evidence of material misstatement; and
- the Council needs to ensure that appropriate and timely payroll reconciliations are undertaken on a regular basis.

We will consider the impact of both our own work and the management representation when forming our opinion on the council's financial statements and pension fund accounts.

25 In view of the weaknesses identified, the impact upon effective control and the potential impact upon the opinion, the Council should consider a post-implementation review of the payroll system to determine whether there are lessons applicable to any future systems developments.

<i>Recommendations</i>
<i>R3 The Council needs to ensure that appropriate formal and timely payroll reconciliations are undertaken on a regular basis.</i>
<i>R4 The Council should consider a post-implementation review of the payroll system to consider whether there are lessons to be learnt for any future systems development.</i>

26 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.

SIC

27 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.

- 28 From 2006/07 there is a new requirement to refer to group entities in the SIC. The Authority had not taken the activities of group entities into account in their initial preparation of the SIC. The Council should ensure that its future review process includes group entities.

Recommendation

R5 The Council should ensure future arrangements for the production of the SIC include group entities.

Other governance issues

- 29 We have four other points to draw to your attention, covering NNDR, the S31 agreement with Hillingdon PCT; collection fund; and teachers' threshold grant claims.

Section 31 agreement

- 30 Our 2005/06 Annual Governance Report identified areas for improvement specifically in relation to the Council's Section 31 (pooled budget) agreement with Hillingdon Primary Care Trust (PCT) for learning disability services. The agreement expired in March 2007, and was extended to June 2007 to enable both parties to carry out a review of client needs and contributions to the pool. We understand that the review is still in progress and agreement has not yet been concluded. It is an important aspect of governance arrangements that where payments are being made under a S31 agreement, a formal signed agreement should be in operation.

Recommendation

R6 The Council and the PCT need to ensure their arrangements in respect of the learning disabilities pooled budget are formalised.

NNDR

- 31 Our 2005/06 Annual Governance report drew attention to the significant amounts of aged debt outstanding and the need to prioritise recovery action. The 2006/07 financial statements still contain significant aged debt and show a debtors balance of £20m with a bad debt provision of £16.5m. We understand that £1.75m has been written off during 2007/08 and officers are currently reviewing recoverability of the remaining debt.

Collection fund deficit

- 32 The deficit on the collection fund has been increasing from £400k in 2004/05 to £1,196k in 2006/07. The reported deficit at month 4 in 2007/08 is £266k. We understand that officers are planning to conduct a review to address the deficit as part of the 2008/09 budget setting process.

Teachers threshold grant claims

- 33 Our 2005/06 Annual Governance Report identified that the audit of the Teachers Threshold grant claims was incomplete. The audit has covered a six year period from 2000/01. The Authority had resubmitted the claims in response to the DfES requesting a refund in subsidy due to our qualification of the original submitted claims.
- 34 The six resubmitted claims have again been qualified due to a lack of reconciliation to the general ledger and a lack of supporting evidence to substantiate the entries in the claim. This may have an impact on the subsidy received.

Use of resources

Work performed

- 35 The Code requires us to 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 resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan.
- 36 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

Use of resources assessment

- 37 Our work on the 2007 use of resources assessment is currently in progress, and this will be reported to you by December 2007. At this stage of our audit, based on the evidence provided to us, there are no issues to draw to your attention which impact upon our value for money conclusion.

Data quality work

- 38 We are currently finalising our data quality review and will report our detailed findings to the relevant officers by December 2007 when our audit of specified performance indicators has been concluded. Our 2007 review of the Council's data quality arrangements has identified that the Council has adequate arrangements. The Council has an agreed data policy and has initiated an action plan to ensure compliance. At present, monitoring of the action plan primarily covers corporate actions. The Council should ensure that departmental action points are equally monitored.

Best value performance plan

- 39 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Integrated Children's Services

- 40 The first phase of our work was reported in our Annual Audit and Inspection Letter issued in March 2007. The second phase of our work has been completed and agreed with management in July 2007.
- 41 We concluded that the Council was making good progress in its arrangements, with improvements noted in the following areas:
- the CYPP and its priorities are well understood by staff and this has impacted positively on performance management;
 - good governance arrangements are in place for the Children and Young People's Strategic Partnership Board (CYPSPB) and the Change for Children Executive Board (CCEB);
 - decision making within the partnership is clearer and more transparent;
 - human resource capacity within children's services has been increased; and
 - an information sharing protocol has been developed and is beginning to have a positive impact on inter agency working.
- 42 We have also identified areas where the Council needs to continue to make progress. The CYPCPB is aware of these areas and has actions in place to maintain momentum.
- participation of all relevant partners has developed, with some areas of strength such as the engagement of staff. However, further areas to increase participation, which the Council is now addressing, include:
 - the systematic and consistent engagement of parents, carers and young people in both the planning and review of services; and
 - improving the engagement of the voluntary sector by reviewing expected commitments at partnership meetings, eg volume of reading material, to improve effectiveness;
 - although roles and responsibilities within the partnership are generally understood, the separation of the provider and commissioning functions of the Primary Care Trust (PCT) has led to some confusion surrounding the roles and responsibilities of senior representatives in respect of the partnership; and
 - an integrated performance management framework needs to be developed that ensures information on performance, and action taken as a result, is clearly communicated to stakeholders.

Audit fee update

- 43 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

	Plan 2006/07	Actual 2006/07
	£'000	£'000
Financial statements and Statement on Internal Control	274.3	282*
Use of Resources	98	98
Total Audit Fees	372.3	380
Grants certification work	200	200**
Other work	-	-

* Our supplementary audit opinion plan dated 19 July 2007 identifies the variances as due to: the impact of weaknesses in the payroll system which resulted in additional testing, the cost of auditing the whole of government accounts consolidation pack, and the Audit Commission's national fraud initiative. We also expect to issue an additional fee in respect of our current audit work on the financial statements.

**Our grants work is primarily undertaken between September and December 2007 and the outturn will be reported in our next annual audit and inspection letter.

- 44 The outturn on inspection fees will be reported in the annual audit and inspection letter reported in spring 2008.

Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
7	R1 The Council needs to ensure that outstanding audit requests concerning the opinion are cleared as a priority	3		Y		Aiming for 21/9
9	R2 Review the year end closure arrangements and quality controls for producing the financial statements to ensure the accounts presented for approval are free from significant errors, SORP compliant and supported by a robust set of working papers in accordance with the agreed protocol.	2		Y	Review agreed. Review to also include protocol with audit re escalation procedures for ISA 260 report.	

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
10	R3 The Council needs to ensure that appropriate formal and timely payroll reconciliations are undertaken on a regular basis.	3		Y	Now in hand. Internal Audit follow-up also will take place before audit next year.	
10	R4 The Council should consider a post-implementation review of the payroll system to consider whether there are lessons to be learnt for any future systems development.	2		Y	Standard practice	
11	R5 The Council should ensure future arrangements for the production of the SIC include group entities.	2		Y		

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
11	R6 The Council and the PCT need to ensure their arrangements in respect of the learning disabilities pooled budget are formalised.	2		Y		

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1** We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, 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.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

Planned output	Actual date of issue	Addressee
Audit plan	March 2006	Chief Executive
Supplementary opinion audit plan	July 2007	Director of Resources
Interim audit memorandum	July 2007 (currently in draft)	Deputy Director of Resources
Annual governance report	due September 2007	Audit Committee
Opinion on financial statements	due September 2007	not yet issued
Use of resources conclusion	due September 2007	Audit Committee
Final accounts memorandum	planned October 2007	Director of Resources
BVPP report	December 2006	the Council
Data quality report	February 2007	Performance Review Manager
Children's trusts	July 2007	Director of Children's Services
VFM	March 2007	Interim Head of Financial Planning
Payroll integration	January 2007	Performance Review Manager
Annual audit letter	due March 2008	the Council

Appendix 4 – Proposed auditor's report

At this stage of our audit, we have not included a proposed auditors report.

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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, the London Borough of Hillingdon has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the Council's best value performance plan for the financial year 2006/07 in December 2006. 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.

Les Kidner
District Auditor
Audit Commission
1st Floor, Millbank Tower
Millbank, London
SW1P 4HQ

September 2007

Appendix 5 – Management representation letter

Draft management representation letter (ISA+580)

To: Mr L Kidner,
District Auditor
The Audit Commission
1st Floor, Millbank Tower,
London
SW1p 4PN

London Borough of Hillingdon - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of [insert relevant details e.g.; directors, officials, officers] of the London Borough of Hillingdon, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

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

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance and the reasons for not correcting these items are as follows;

- reason 1 etc;
- reason 2

Assets

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements. The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all [insert relevant name eg members/ Board etc] 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;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations, contractual arrangements 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.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Audit Committee no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of the London Borough of Hillingdon

Signed

Name

Position

Date

September 2007

Appendix 6 – Summary of adjusted misstatements

- 1 The following material and significant misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Issue per paragraph 19	Statement	Line	Change (£000)	Impact
Council dwellings valuation error identified by officers - £35,093k.	Balance sheet.	Council dwellings	35,093	Balance sheet understated
Incorrect treatment of disposal of Council dwellings resulting in an impact to the Income and Expenditure account of £5,949k.	Income and Expenditure account.	Loss on sale of fixed assets	(5,949)	I&E understated
Incorrect valuation of council dwellings arising from commitment to dispose.	Balance sheet.	Council dwellings	(9,692) subject to audit	Balance sheet overstated
Debtors and creditors - £3,507k.	Balance sheet.	Debtors and creditors	(3,507)	debtors and creditors overstated.

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Issue per paragraph 19	Statement	Line	Change (£000)	Impact
Pension fund account adjustment to Fixed interest securities (government and Other) of £-922k and £922k respectively.	Pension fund account.	Fixed interest securities - Government	(922)	classification
		Fixed interest securities - Other	922	classification
Note 3 adjustment to Employers and Employees Contributions of £466k and £224k respectively.	Note 3 Contributions receivable and pensions payable to the fund.	Contributions – LB Hillingdon Employers	466	classification
		Contributions – LB Hillingdon Employees	224	classification
		Contributions – Scheduled bodies Employers	(466)	classification
		Contributions – Scheduled bodies Employees	(224)	classification

Issue per paragraph 19	Statement	Line	Change (£000)	Impact
Note 9, various adjustments to 'UK and 'oversees' investments and 'listed and 'unlisted' investments.	Note 9 Investment report.	UK Internally managed funds	15,325	None
		Overseas Fixed interest - Government	(921)	None
		Overseas Managed fund – fixed interest	920	None
		Overseas Unit trusts - other	(12,772)	None
		Overseas Unit trusts	3,790	None
		Overseas unlisted Private equity	9,919	None
		Made up of: Listed	6,343	None
		Made up of: Unlisted	(6,343)	None
Note 9 adjustment of £12,027k to the market value of investments by fund manager.	Note 9 Investment report.	LINE TBC – total includes Cash/Debtors and Creditors which have been excluded. They may be included under those 3 lines or split between each fund manager. We are currently awaiting further information from the Council to confirm this treatment.	12,027	Amendment to note

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Issue per paragraph 19	Statement	Line	Change (£000)	Impact
Adjustment to the Reconciliation on the deficit to include £15,033k of Employers contributions payable to the Pension fund.	Reconciliation of the deficit in the Income and Expenditure account.	Net charges made for retirement benefits in accordance with FRS17	(15,033)	amendment to note
		Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	15,033	amendment to note
Incorrect classification of HRA share of MRP.	I&E.	interest income	(1,976)	amendment to note
		interest payable	1,976	

Appendix 7 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 2 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code criteria	Description	Associated UoR KLoE	2006 UoR score	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	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.	N/A	N/A	Adequate
3	The body has put in place arrangements 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.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	N/A	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2		Adequate

Code criteria	Description	Associated UoR KLoE	2006 UoR score	VFM Conclusion
6	The body has put in place arrangements to manage its significant business risks.	4.1		Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2		Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1		Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1		Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2		Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3		Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3		Adequate