

A woman with long brown hair is looking down at a document. A man in a white shirt is also looking at the document. They are both holding pens and appear to be in a meeting or collaborative work environment. The background is a bright, slightly blurred office setting.

## London Borough of Hillingdon

**Auditor's Annual Report  
Year ended 31 March 2021**

13 April 2022



**EY**

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working world

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

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

# Executive Summary



# Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council's:</b>	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 4 February 2022.
Going concern	We have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the narrative report and other information published with the financial statements	Financial information in the narrative report and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	We concluded that financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
<b>Reports by exception:</b>	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements.  We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 3 February 2022 to the Audit Committee.
We will have to issue a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment, additional requirements in relation to ISA 540 on pensions and the new value for money commentary under the new NAO Code. We were also required to undertake audit procedures on the new significant account Covid-19 grants. We will calculate the associated additional fee and discuss this with the Corporate Director of Finance before sending it to PSAA Ltd for their review. We include details of the audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.



Helen Thompson

Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

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

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 31 March 2021 and a scope update communicated in the Initial Audit Results Report issued on 16 September 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

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

## **Responsibilities of the Council**

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

Section 3

# Financial Statement Audit



# Financial Statement Audit – London Borough of Hillingdon

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We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

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## Key issues

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

On 4 February 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee members on 3 February 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error - management override of controls</b></p> <p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p>	<p>Our testing did not reveal any:</p> <ul style="list-style-type: none"><li>➤ material weaknesses in controls or evidence of material management override;</li><li>➤ instances of inappropriate judgements being applied; or</li><li>➤ any other transactions during our audit which appear unusual or outside the Council's normal course of business.</li></ul>
<p><b>Inappropriate capitalisation of expenditure</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>We performed our testing as per the audit plan. We did not identify any instances where expenditure had been inappropriately capitalised. We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.</p>

Continued over.

# Financial Statement Audit - London Borough of Hillingdon (continued)

Significant Risk	Conclusion
<p><b>Misstatements due to fraud or error – accounting adjustments made in the ‘Movement in Reserves Statement’</b></p> <p>Linking to our risk due to fraud and error above we have considered the accounting adjustments made in the Movement in Reserves Statement as a separate specific fraud risk, given the financial pressure the Council is under to achieve its revenue budget and maintain reserve balances above the minimum approved levels.</p>	<p>We completed the work and we did not identify any issues with management’s application of the CIPFA guidance and the statutory guidance on Minimum Revenue Provision (‘MRP’) calculation with regards to adjustments made in the movements in reserves statement. We challenged management on the approach to MRP allocation and found management’s approach reasonable.</p>
<p><b>New central government grants and other Covid-19 funding streams</b></p> <p>The Council received a series of grants from the UK government during 202/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus due to the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, which could lead to a difference in the accounting treatment.</p>	<p>We completed our testing of the Council’s accounting treatment as principal or agent and the related disclosures in the financial statements and have not identified any issues to report. Adequate disclosures of grant income received in the year were included in the accounts under both principal and agent arrangements.</p> <p>We did not identify any exceptions with regards to the accuracy and compliance of received grants with the requirements of the relevant schemes.</p>
<p><b>Risk of error in the valuation of land and buildings - Schools (updated post Covid-19)</b></p> <p>Valuation of land and buildings involves significant judgments made by management and their external specialists. We narrowed down our significant risk identification around valuation of schools’ land and buildings because of the material balance of these assets and a history of judgmental audit differences identified.</p>	<p>We instructed EY’s real estate valuation specialists to support us with our work in this area due to the complexity of the estimates involved. Certain differences of professional opinion between the audit team, management and management’s specialist led to the following judgmental audit difference: understatement of land and buildings in an amount of £3,893,000. This amount includes a difference we identified on the valuation of the wider portfolio of land and buildings, which is described further below under areas of focus.</p> <p>This difference remained uncorrected in the statement of accounts of the Council and we reported it to those charged with governance through our final Audit Results Report shared with the members of the Audit Committee on 3 February 2022.</p>

Continued over.

## Financial Statement Audit - London Borough of Hillingdon (continued)

In addition to the significant risks on the previous pages, we also concluded on the following areas of audit focus.

Other areas of audit focus	Conclusion
<p><b>Pension liability valuation</b></p> <p>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>The revised auditing standard on accounting estimates led to additional work undertaken this year by EY's internal specialists in order to obtain sufficient assurance on the valuation of pension liability.</p> <p>We completed our work and included a judgmental understatement of pension liability due to the Goodwin case by £2.5 million, which is offset by a factual overstatement of the same amount (£2.5 million) due to timing differences in the valuation of the Pension Fund's assets compared to the timing of issuance of the IAS 19 actuarial report.</p> <p>These differences remained uncorrected in the statement of accounts of the Council and we reported them to those charged with governance through our final Audit Results Report shared with the members of the Audit Committee on 3 February 2022.</p>
<p><b>Consideration of Group Boundary</b></p> <p>During 2018/19, the Council created a housing company, Hillingdon First Limited. Depending on the qualitative consideration of and quantitative size of the company, the finance team will need to consider the preparation of group accounts.</p>	<p>We reviewed the Council's assessment of the need to prepare group accounts as a result of transactions occurring within the subsidiary within the financial year.</p> <p>We did not identify any issues with regards to management's approach not to consolidate Hillingdon First Limited in the 2020/21 accounts on grounds of materiality.</p>
<p><b>Assessment and disclosures on Going Concern</b></p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We completed our planned procedures and discussed the detailed implications of the revised auditing standard with the Council's finance staff.</p> <p>We did not identify any material uncertainties with regards to the going concern of the Council and following certain adjustments to the disclosure related to the timing of the audit finalisation, we considered the going concern disclosure to be appropriate and sufficient.</p>

Continued over.

## Financial Statement Audit - London Borough of Hillingdon (continued)

Other areas of audit focus	Conclusion
<p><b>Valuation of Other Land and Buildings</b></p> <p>The carrying amount of other land and buildings, excluding schools' assets, represents a significant balance in the Council's accounts and is subject to impairment reviews, depreciation charges and revaluation changes. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We selected a sample from the wider pool of properties and we asked EY's real estate valuation specialists to support us with our work in this area due to the complexity of the estimates involved in valuation. In addition, the audit team reviewed an extended sample of assets and corroborated inputs with supporting evidence and results of our specialists' review.</p> <p>We identified a judgmental audit difference on the Central Depot valuation, which is included in the total understatement of land and buildings in an amount of £3,893,000 as set out above under the significant risk around valuation of schools' land and buildings.</p>
<p><b>Auditing Accounting Estimates</b></p> <p>ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019. This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors. The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates.</p>	<p>We performed additional audit procedures to address the revised requirements of ISA540. This impacted our work on estimates, such as the valuation of property, plant and equipment, the valuation of pension liability and the fair value measurement of financial liabilities.</p> <p>This additional work enabled us to conclude on the accounts involving estimates and we included all our audit differences in this section of the report under the relevant risks. There were no additional audit differences to report to those charged with governance.</p>

Continued over.

# Financial Statement Audit - London Borough of Hillingdon (continued)

## Audit differences

There were no adjusted differences above our performance materiality level of £10.3m, arising from our work. A small number of other amendments were made to disclosures appearing in the financial statements as a result of our work, which were corrected satisfactorily by management.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £13.8m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We report to the Audit Committee all corrected audit differences in excess of £10.3m and all uncorrected audit differences in excess of £0.7m.

We also identified the following areas where misstatements at a level lower than our overall materiality level might influence the reader. For these areas, we audited all disclosures and undertook procedures to confirm material completeness. The areas identified include:

- ▶ Cash/bank balance;
- ▶ Related party transactions;
- ▶ Officers' remuneration;
- ▶ Members' allowances; and
- ▶ Exit packages.

# Financial Statement Audit – London Borough of Hillingdon Pension Fund

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We have issued an unqualified audit opinion on the Pension Fund's 2020/21 financial statements.

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## Key issues

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

On 4 February 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee members on 3 February 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error, including misstatement of investment amounts through fraudulent journal entries</b></p> <p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p> <p>We assessed that the risk of manipulation of investment income and valuation through management override of controls is most likely to affect investment income and assets in the year, specifically through journal postings.</p>	<p>We did not identify:</p> <ul style="list-style-type: none"><li>➤ any material weaknesses in controls or evidence of material management override;</li><li>➤ any instances of inappropriate judgements being applied; and</li><li>➤ any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.</li></ul> <p>Our journals testing confirmed there were no unusual or unexpected postings.</p> <p>We were able to agree the disclosure of investment values to custodian, fund manager and property valuer reports in the detailed investment note and throughout the financial statements. We also undertook further detailed testing to gain assurance over the valuation of investments with no issues.</p>

Continued over.

# Financial Statement Audit – London Borough of Hillingdon Pension Fund (continued)

Significant risk	Conclusion
<p><b>Valuation of complex investments (Level 3 Fair Value hierarchy)</b>            We consider the valuation of Level 3 investments to be of a significant risk due to the unobservable inputs making up the valuations. This involves a high degree of estimation from the fund managers as audited accounts supporting the valuation are prepared at a date before the Pension Fund's financial year-end.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>➤ reviewed the relevant funds' latest available audited accounts for modifications and corroborated the extracted information with the relevant valuations;</li> <li>➤ where the latest audited accounts were not as at 31 March 2021, we performed analytical procedures, market indexations and cash flow roll-forward to assess the valuation for reasonableness against our own expectations;</li> <li>➤ reviewed the fund managers' latest controls reports and bridging letters to assess whether the fund manager maintained appropriate controls to prevent and detect material misstatements in the pricing of assets; and</li> <li>➤ tested that accounting entries were correctly processed in the financial statements.</li> </ul> <p>We did not note any issues with the judgements used in the valuation of level 3 investments.</p>
Other areas of audit focus	Conclusion
<p><b>Disclosures on going concern</b>            There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund was required to carry out a going concern assessment that is proportionate to the risks it faces. The Fund was required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it identified.</p>	<p>From a review of management's assessment, we were satisfied that it is appropriate for the financial statements to be prepared on a going concern basis and the basis was supported by evidence, including a cashflow forecast, for the foreseeable future.</p> <p>We did not identify any material uncertainties with regards to the going concern of the Pension Fund and following certain adjustments to the disclosure related to the timing of the audit finalisation, we considered the going concern disclosure to be appropriate and sufficient.</p>

Continued over.

# Financial Statement Audit – London Borough of Hillingdon Pension Fund (continued)

Other areas of audit focus	Conclusion
<p><b>IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits</b></p> <p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the previous triennial valuation as at 31 March 2019, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.</p> <p>There is a risk that the valuation uses inappropriate assumptions to value the liability as at 31 March 2022.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>&gt; Assessed the competence of management experts, Hymans Robertson;</li> <li>&gt; Engaged with the NAO's consulting actuary and our EY Pensions team to review whether the IAS26 approach applied by the actuary is reasonable and compliant with IAS26; and</li> <li>&gt; Ensured that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.</li> </ul> <p>We completed the work and concluded that the future pension liability disclosed under IAS26 requirements in the Pension Fund's accounts is reasonable in all material respects.</p>

## Audit differences

There were no adjusted differences above our performance materiality level of £8.7m, arising from our work. A small number of other amendments were made to disclosures appearing in the financial statements as a result of our work, which were corrected satisfactorily by management.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £11.6m as 1% of the Fund's net assets reported in the accounts. We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We report to the Audit Committee all corrected audit differences in excess of £8.7m and all uncorrected audit differences in excess of £0.6m.

Section 4

## Value for Money



# Value for Money (VFM)

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We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 29 September 2021 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with management and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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

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## Reporting

We completed our planned VFM arrangements work on 4 February 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

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

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## VFM Commentary

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

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
-

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

## Financial sustainability

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

The Council identifies all the significant financial pressures that are relevant to its medium term plans through its Medium Term Financial Forecast ('MTFF'), which is the financial plan for the Council and it contains the funding strategy for delivering the Council's objectives for a forward looking period of four years. This forecast is revisited and extended on an annual basis, or more frequently if necessary. This forecast enables emerging risks and issues to be reflected in the Council's financial planning in a timely manner.

The budget setting cycle represents a continuous programme of activity across the financial year. Monthly budget monitoring reports are used to identify and address short term financial pressures. This is the process of comparing actual and forecast expenditure and income throughout the financial year, both through budget monitoring and at the point of committing expenditure. It involves identifying variances, pressures and risks while taking prompt action to prevent budget pressures from arising or to bring pressures that have arisen back under control. Budget managers carry out monitoring of the actual positions while being aware of wider factors which may impact upon the budget position. These monthly reports are reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures, whilst continuing to deliver on the Council's priorities for residents.

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

## Financial sustainability (continued)

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

Over the period 2020/21 to 2022/23, the Council planned to bridge its funding gap through inflationary council tax increases, approved savings programme and in-year call on general fund balances.

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

- Business Improvement Delivery ('BID') Programme-led service transformation projects;
- Zero Based Reviews, which identifies budgets as being surplus to requirements through the line-by-line review of outturn and similar exercises being undertaken by Finance;
- Effective Procurement captures the benefits secured from efficiency savings from contracted services and reviews of delivery models in a number of areas;
- Preventing Demand initiatives, such as the Supported Living Programme where investment in early intervention and other support can avoid more costly intervention at a later date;
- Income Generation & Commercialisation proposals primarily relate to amendments to fees and charges;
- Changes of Responsibility & Funding Streams, which relates to mechanisms such as the New Homes Bonus, Troubled Families Grant and the synergies / efficiencies arising from transfers of functions to and from Local Government such as Education and Public Health.

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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*How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

The Council's constitution lays out its core strategic priorities. Full Council considers at its annual meeting whether any additional plans or strategies, both statutory or non-statutory, should be adopted or approved. The Council's plans and strategies make up the Council's budgetary and policy framework.

The Council's budget setting process is service-led, with a comprehensive assessment of the level of demand for services and the level of investment required flowing from the monthly budget monitoring process into future budget plans, as seen in both the regular monitoring and bi-annual budget setting reports to Cabinet. This approach covers the full range of activity within the Council's budget, with particular focus being placed on areas such as social care placements, waste disposal costs and support for homeless households where budgets are realigned to meet demand prior to consideration of potential to generate savings in these areas.

## Financial sustainability (continued)

*How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The MTFF and budget setting processes facilitate an effective integration with other plans and strategies, for example:

- The Corporate Transformation / BID Team work closely with service departments and the dedicated Transformation (Finance) Business Partner within the Corporate Finance team to ensure that service design and transformation activity is effectively captured in budgets.
- There is an annual process of budget approval by all Tier 3 managers in the organisation (i.e. Deputy Directors and Heads of Service reporting to Corporate Directors) to ensure that the output from the MTFF process is aligned to local service requirements.
- The staffing budgets reflect the HR-owned master establishment list to ensure that workforce plans and budgets are wholly aligned. This is included within the annual budget process and then updated on a monthly basis through the post-level budget monitoring process included in the Council's budget management system.
- Capital & investment strategies are linked into the MTFF and budgets with future debt servicing and repayment costs clearly flowing through from spending plans.
- Where appropriate, joint strategies such as the Better Care Fund Section 75 Agreement, are fully aligned to the MTFF to ensure that contributions to the wider health and social care system are in place and available to meet residents' needs.

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.*

The Council identifies risks to financial resilience through its budget monitoring and MTFF processes, as well as engagement outside of the organisation through active engagement with bodies such as the Society of London Treasurers (SLT), the Deputy Treasurers Group (DTG) and the Association of Directors of Adult Services (ADASS), where regular discussion, information sharing and benchmarking supplements local intelligence.

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

## **Financial sustainability (continued)**

*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans (continued)*

The Council regularly reviews the range of risks against the appropriate level of provision managed through the General Fund. This analysis is set out in the annual review of the adequacy of balances completed as part of the budget setting report in February of each year.

The Council makes effective use of its earmarked reserves as a tool for the management of risks to financial resilience, with dedicated reserves in place for specific risks such as insurance claims, care provider default, income volatility and fluctuations for demand for homelessness support, etc.

As an example, in respect of COVID-19, the Council set aside £9m at the 2019/20 outturn to create a dedicated fund to supplement government grant funding in managing the impact of the pandemic, with a further £1m being added to this fund at the 2020/21 outturn.

## **Governance**

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

The Cabinet is responsible for approving the Council's risk management policy statement and strategy and for reviewing the effectiveness of risk management.

The Corporate Director of Finance is responsible for preparing the risk management policy statement, for promoting it throughout the Council and for advising the Cabinet on proper insurance cover where appropriate.

Chief officers are responsible for identifying and controlling hazards and containment of losses. They notify the Corporate Director of Finance of any new risks or changes which affect insurable risks and they update the Directorate Risk Registers on a quarterly basis. The most significant risks are escalated and summarised in the Corporate Risk Register ('CRR').

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

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

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Governance (continued)**

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud (continued)*

The Corporate Director of Finance is responsible for advising on effective systems of internal control. These arrangements ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use. It is the responsibility of chief officers to establish sound arrangements for planning, appraising, authorising and controlling their operations.

The Council maintains an adequate and effective internal audit function as required by the Accounts and Audit Regulations 1996. A risk based internal audit plays a central and essential role in maintaining a sound system of internal control at the Council. Chief officers are required to give proper consideration to internal audit recommendations and to respond, accordingly.

The Corporate Director of Finance oversees the development and maintenance of a prevent and detect anti-fraud and anti-corruption policy. Anyone who becomes aware of any actual or suspected financial irregularity or loss, whether of money or assets, normally notifies their line manager in the first instance.

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

*How the body approaches and carries out its annual budget setting process*

The Corporate Director of Finance is responsible for ensuring that a revenue budget is prepared on an annual basis for consideration by the Cabinet, before submission to Full Council.

Following a robust challenge process involving both chief officers and members, as well as a statutory budget consultation process with business ratepayers and residents in the Borough, the Council may decide to adopt the Cabinet's proposals, amend them, refer them back to the Cabinet for further consideration, or substitute with its own proposals. Any decision is made on the basis of a simple majority of votes cast at the meeting. Once the decision has been taken by the Council, it will be publicised and implemented.

The Council's budgets include the General Fund, the Housing Revenue Account and the capital budgets. Detailed approval limits and roles, as well as conflict resolution guidelines on adoption of plans or strategies are set within the Council's constitution: <https://www.hillingdon.gov.uk/constitutionanddelegations>. It is the responsibility of chief officers to ensure that budget estimates reflecting agreed service plans are submitted to the Cabinet and that these estimates are prepared in line with guidance issued by the Cabinet.

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Governance (continued)**

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.*

Chief officers control income and expenditure within their area and they monitor performance on a monthly basis, taking account of financial information provided by the Corporate Director of Finance, as well as non-financial information where appropriate. They report on variances within their own areas and they take any action necessary to avoid exceeding their budget allocation and alert the Corporate Director of Finance to any problems. Budget manager engagement is actively tracked against the four-day deadline for monitoring returns each month.

As part of the monthly budget monitoring process, the financial position of each department is reviewed in detail by the Corporate Director of Finance with dedicated monthly meetings with each Corporate Director to ensure that issues and actions emerging from the monitoring process are dealt with and reflected in the MTFF as appropriate. Finally, the outputs from this process are presented to Cabinet on a monthly basis.

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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The general format of the budget is approved by Full Council and proposed by the Cabinet on the advice of the Corporate Director of Finance. The draft budget includes an allocation to different services and projects, proposed taxation levels and contingency and reserve funds, sufficient to comply with statutory requirements.

The Audit Committee reviews and monitors the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment. This includes their review and approval of the statutory annual statement of accounts. Specifically, they consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the external auditor that need to be brought to the attention of the Council. In addition, the Audit Committee considers the External Auditor's report to those charged with governance on issues arising from the external audit of the accounts

## **Governance (continued)**

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.*

The Council issues and keeps up to date a record of what part of the Council or individual has responsibility for particular types of decisions or decisions relating to particular areas or functions. The Council's Constitution sets out the key roles and responsibilities for decision making, as well as the procedures that are followed to ensure that the decisions taken are efficient, transparent and accountable to local people. The Constitution is reviewed at Full Council meetings as required and also more comprehensively on an annual basis at each Annual General Meeting, as required.

Part 2, article 7.08 of the Constitution sets out the 'Cabinet Scheme of Delegations'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet Members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Directors' responsibilities. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions.

Part 3 of the Constitution sets out the 'Scheme of Delegations to Officers'. This governs the responsibilities allocated to officers to perform the authority's activities. Details of what decisions are taken in this way are included in the Scheme of Delegation in the Council's Constitution. Further specific delegations may be granted through recommendation in public reports to Committees.

The Council is committed to the seven Nolan Principles of Public Life and these are detailed in the Constitution: selflessness, integrity, objectivity, accountability, openness, honesty, leadership. All Council and Committee meetings are held in public (the public are excluded only in limited circumstances of consideration of confidential or exempt information), with agenda and reports being produced and published on the Council's website. Key Council meetings are broadcast live on YouTube including Full Council, Cabinet, Planning Committees, Licensing Sub Committees, Petition Hearings (subject to public interest).

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

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Governance (continued)**

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

The Council appoints Statutory Officers who have the skills, resources and support necessary to ensure compliance with the Council's statutory and regulatory requirements.

The Council's Monitoring Officer has statutory reporting duties in respect of unlawful decision making and maladministration. After consulting with the Head of Paid Service and Corporate Director of Finance, the Monitoring Officer reports to Full Council or to the Cabinet if he or she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report has the effect of stopping the proposal or decision being implemented until the report has been considered.

The Council's Standards Committee is established by Full Council and is responsible for promoting and maintaining high standards of conduct amongst councillors. In particular, it is responsible for advising the Council on the adoption and revision of the Member Code of Conduct, which apply to both Councillors and Officers.

Clear guidance is in place for members and officers regarding the acceptance of gifts and hospitality detailed in the Gifts and Hospitality Policy, Golden Rules for Employees and the Council's Constitution. Conflicts of interest can potentially arise in a variety of situations and a simple rule of thumb is "if in doubt declare it". Examples of situations where a conflict can arise are set out in the Council's Constitution, including guidance around financial and non-financial interests, family members and personal relationships, other employment, personal opinions and social media behaviour, relationships with colleagues and obligations towards the Council's residents, as well as looking after and using Council's assets and resources.

The Member Register of Interests records the pecuniary and non-pecuniary interests of members and co-opted members of the Council. There is a separate 'Related Parties' register that all members and a selection of senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the Council has entered into. Related party transactions are disclosed in the Council's Statement of Accounts, which are approved by the Audit Committee on an annual basis.

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Improving economy, efficiency and effectiveness**

*How financial and performance information has been used to assess performance to identify areas for improvement.*

The Council's Performance Management Framework is a Council-wide framework requiring all service areas and teams to set annual service delivery plans, targets, identify risk and report performance against Council priorities. Key aspects of performance are monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams ('SMTs') and reported quarterly to the Corporate Management Team ('CMT'). Performance monitoring covers a broad range of functions, including Highways, Waste & Recycling and Social Care.

An example of the close links between finance and performance data is the Council's social care placement activity data, which is integrated into the budget management system to enable direct comparisons between activity and spend, alongside standard costing to be undertaken within the system.

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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In addition, the monthly budget monitoring process, as described in the previous sections of this commentary, is the main tool used by the Council to assess its financial performance against set targets and to identify areas for savings and efficiencies. The Council's budget monitoring processes are closely aligned to key performance data – particularly on workforce, demand-led activity and fees & charges. This means that the General Fund revenue budget activity is being monitored with an explicit link to the relevant performance information, which enables identification of areas for improvement.

*How the body evaluates the services it provides to assess performance and identify areas for improvement*

The effectiveness of the Council's interventions and the quality of its services is monitored through the preparation of regular performance reports showing progress towards goals and targets set in the budget and business plans. Key areas are highlighted for decision-makers to take corrective action if necessary.

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

The Hillingdon Improvement Programme ('HIP') is aimed at delivering a range of key improvements to the way the Council works and improving services to the Council's residents. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors are also responsible for specific HIP projects.

## **Improving economy, efficiency and effectiveness (continued)**

*How the body evaluates the services it provides to assess performance and identify areas for improvement (continued)*

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

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

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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

The Cabinet is responsible for approving frameworks for partnerships. The Cabinet is the focus for forming partnerships with other local public, private, voluntary and community sector organisations to addressing local needs.

Specific delegations to the Cabinet Member for Corporate Services & Transformation include: to promote effective methods of partnership working in consultation with the appropriate Cabinet Member if this relates to specific service areas and to oversee proposed arrangements with public and other bodies for the delivery and funding of partnership initiatives which affect the Council.

The Corporate Director of Finance considers the overall corporate governance arrangements, legal issues and other risks when arranging contracts with external partners. Chief officers are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with partners.

The Council works closely with a broad range of stakeholders and partners, co-ordinated through the Community Engagement Team to ensure that partnerships deliver the expected services for local residents. The annual review of the voluntary sector grants programme enables Cabinet to effectively monitor performance, target resources as appropriate and take action where improvement is necessary. The effectiveness of the Council's working with partners was demonstrated in the context of the voluntary sector's response to COVID-19 in the recent Corporate Services, Commerce and Communities Policy Overview Committee's review in this area.

## **Improving economy, efficiency and effectiveness (continued)**

*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

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For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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The Council's Constitution lays out the framework for procurement and contract standing orders for every contract awarded by or on behalf of the Council in respect of goods, works and services. Compliance with the procurement standard operating procedures is mandatory across all Council departments, together with the application of best practice.

Corporate Directors, Directors, Deputy Directors and Heads of Service ensure that all officers who procure goods, works or services comply with the Constitution and the Procurement Standard Operating Procedures. Only officers who are deemed to be qualified and competent by the Head of Procurement, in conjunction with the appropriate Corporate Director, are allowed to procure goods, works or services. These officers are identified within each Department's individual Scheme of Delegations.

Where external or specialist advice is required, a specific legal budget exists within procurement that is used to mitigate risks in the work the Council undertakes. Procurement is subject to internal audit in a number of areas and where recommendations are made, appropriate action is taken. In addition, the Council's overall process for assessing performance, as discussed previously in this commentary, enables the assessment of benefits received from partners against the relevant pre-set key performance indicators.



Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and identified a small number of areas where disclosure amendments were required to reflect the position at the Council. The Council amended the annual governance statement to reflect our recommendations.

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Council to complete this work as required.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit identified an observation we brought to the attention of the Audit Committee around the calculation of the bad debt provision on debtors for taxation. We noted an increase in debtor balances as the Council went through its first full pandemic year and we understand that the Council has certain plans for more intensive recovery of debts compared to the 2020/21 financial year. We were able to obtain sufficient assurance over the bad debt provision following an increased audit effort given the uncertainties. However, we are drawing attention to the fact that appropriate consideration should be given to the recovery plans used to make judgments about the recoverability of debts and a close monitoring of the progress against those plans and the impact on the accounts of future years.

Appendix A

## Audit Fees



## Audit Fees – London Borough of Hillingdon

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
<b>Total Audit Fee – Code work</b>	TBC	135,496 to 144,496**	162,047*
<b>Non-audit work</b>			
Housing benefits	30,600	Variable***	28,290
Capital receipts return	7,900	7,500 – 8,500	8,000
Teachers' pensions	13,500	13,000 – 13,500	12,500
<b>Total non-audit fees</b>	<b>52,000</b>	<b>Variable</b>	<b>48,790</b>

\*The 2019/20 Code work includes an additional fee of £40,951, which relates to additional procedures to address the increased regulatory audit requirements, additional specific one-off work required for Covid-19 considerations in relation to Going Concern and professional consultation and additional procedures to address the significant risk around properties valuation and VFM conclusion. This additional fee variation was approved by PSAA and covers only a proportion of the following total scale fee variation determined by us and submitted to PSAA for approval: a general increase of £82,728 to the scale fee and an additional fee to address specific risks, going concern and consultations of £31,217.

\*\*The planned fee for 2020/21 includes the scale fee set by PSAA of £121,096 and the 2020/21 PSAA expected additional minimal core fees of £10,000 to £19,000 for VFM and £4,400 for ISA 540 accounting estimates. The PSAA scale fee is indicative and does not reflect the actual costs of undertaking the audit, to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work in Section 03. In our audit results report, we included an estimate of the scale fee increase by £82,728 to reflect those underlying costs, however this was only an indicative amount. We will finalise and discuss the total fee with management and PSAA, and communicate progress to the Audit Committee.

\*\*\*For Housing Benefits procedures we planned £19,500 plus VAT for the certification work and £3,700 plus VAT for the each set of extended (“40+”) testing.

## Audit Fees – London Borough of Hillingdon Pension Fund

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
<b>Total Audit Fee – Code work</b>	TBC	16,170**	29,864*
<b>IAS 19 protocol procedures***</b>	TBC	5,000***	8,987***
<b>Total fees</b>	<b>TBC</b>	<b>21,170</b>	<b>38,851</b>

\*The 2019/20 Code work includes an additional fee of £13,694, which relates to additional procedures to address the increased regulatory audit requirements, additional specific one-off work required for Covid-19 considerations in relation to Going Concern and professional consultation and additional procedures to address the significant risk around investments valuation. This additional fee variation was approved by PSAA and covers only a proportion of the following total scale fee variation determined by us and submitted to PSAA for approval: a general increase of £28,293 to the scale fee and an additional fee to address specific risks, going concern and consultations of £8,130.

\*\*The planned fee for 2020/21 includes the scale fee set by PSAA. The PSAA scale fee is indicative and does not reflect the actual costs of undertaking the audit to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work in Section 03. In our audit results report, we included an estimate of the scale fee increase by £28,293 to reflect those underlying costs, however this was only an indicative amount. We will finalise and discuss the total fee with management and PSAA, and communicate progress to the Audit Committee.

\*\*\*This fee covers procedures on IAS 19 assurances provided to the auditor of the London Borough of Hillingdon and this fee is not set by PSAA. The 2019/20 final fee includes the triennial membership data testing used in IAS19 valuations. There is no fee for triennial data testing included in the planned fee for 2020/21. We will finalise and discuss the IAS 19 fee with management, and communicate progress to the Audit Committee.

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