

Watford Borough Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

SEPTEMBER 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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 Steve Varley, 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.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Watford Borough Council for the year ended 31 March 2016. Subject to satisfactory completion of the outstanding items listed below we will issue an audit opinion in the form which appears in Appendix D:</p> <ul style="list-style-type: none"> • Housing Benefit ratio explanations • completion of subsequent events review • receipt of the signed management representation letter from the Director of Finance/Chair of the Audit Committee <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that the Council have put in place proper arrangements to secure value for money in its use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We had no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>Our audit identified a number of audit differences which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix A. These adjustments have not had an impact on useable reserves.</p> <p>We also identified a number of disclosure errors which have been amended by management.</p>
Scope and materiality	<p>In our audit plan presented at the 14 March 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1,535,000. The basis of our assessment was 2% of gross operating expenditure. We have reassessed this based on the actual results for the financial year and have increased this amount to £1,635,000 due to an increase in the authorities' gross operating expenditure as a result of an increase in housing benefit payments.</p> <p>The threshold for reporting audit differences which impact the financial statements has also increased from £77,000 to £81,000.</p>

We carried out our work in accordance with our Audit Plan with the following amendment reported to you in our Audit Progress report on 27th June 2016:

As part of our planning procedures, we assess the financial statement risks facing the Council. With the adoption of IFRS13 into the Code we have identified a risk of misstatement in property valuation, so we raised this as an additional significant risk.

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:

- Risk of management override.
- Risk of error in property valuation.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues and others identified during the audit.

Other reporting matters

We have also highlighted to you our work on the Non-Domestic Rates (NDR) appeals provision.

Control observations

During the audit, we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. These are set out in the "Assessment of control environment" section of this report.

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

Andrew Brittain
Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Auditing standards (ISA 620) require us to gain particular assurances when an expert has been engaged by an audited body and where this influences material figures in the financial statements. The Authority engages a professional valuer to provide it with asset valuations. These assets represent a material figure in the Authority's Accounts.</p> <p>From 2015/16, the Code of Practice on Local Authority Accounting in the United Kingdom adopted IFRS 13 for assets and liabilities included in the financial statements that either permit or require measurement at fair value.</p> <p>The 2014/15 balance showed a balance of £120 million for Investment Property, and therefore this change in approach will impact on material disclosures in the financial statements.</p> <p>As this is an initial audit engagement for us, we will also review the classification of assets in the balance sheet to gain assurance that Investment Property and other fixed assets are appropriately classified and valued.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing management's assumptions and source data concerning asset classification ▶ Assessing the competency and objectivity of management's valuer ▶ Assessing whether the scope of work undertaken by the valuer is sufficient ▶ Reviewing how the Authority satisfies itself that the valuations given provide it with the level of information it needs to provide reliable data and appropriate disclosures for the statement of accounts ▶ Reviewing the asset valuations, their valuation basis, and the assumptions behind them ▶ Evaluating whether the substance of the expert's findings is appropriately reflected in the financial statements <p>Consideration of the accuracy and completeness of the source documents used by the valuer</p>	<p>We reviewed the information provided by the authority to the valuer and the valuations provided by the valuer to ensure that they have been correctly reflected in the financial statements, and that the valuations has been made on appropriate basis. We also reviewed the valuer's competency and objectivity. We audited the prior period adjustment identified by the Council that resulted in investment properties being reclassified as land and buildings as they were not held for investment purposes. There were no issues arising as a result of our work on property valuation.</p>
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 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 otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewed accounting estimates for evidence of management bias; and • Evaluated the business rationale for any significant unusual transactions 	<p>We selected a number of journals to review based on our risk assessment. We have agreed these to other areas of our audit work or other supporting evidence. We have no concerns to raise.</p> <p>We have reviewed the most significant accounting estimates. We have not identified any evidence of management bias.</p> <p>We have not identified any unusual business transactions.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you as the oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We wish to highlight the following matter:

- Our audit of the Business Rates Appeals provision found that it was made up of three specific elements
 1. An analysis of known appeals on the Valuation Office Agency list completed by Analyse Local, industry experts. We performed procedures that enabled us to be able to rely on management's experts' estimation to provide us with assurance over this element of the provision.
 2. A provision for appeals that have not yet been lodged. This was included as the Council has past experience of the Valuation Office settling appeals that are not included on the list above. We reviewed the methodology for compiling this element, tested the source data used in constructing it and performed a series of reasonableness tests of the estimation to provide us with assurance over this element of the provision.
 3. A contingency. On enquiry with management we found that this element was included to be prudent in protecting the Council from any further exposures not covered by the two elements above. In our opinion the contingency has no specific basis which meets the requirement of the relevant accounting standard on provisions, IAS 37. Therefore we raised this as a judgemental audit difference which has been corrected by management (see Appendix A).

In line with best practice we recommend that the methodology for the calculation of this provision is reviewed each year to ensure the calculation basis is suitable, that it provides a reasonable basis for the provision and that all elements can be evidenced as reliable estimates in accordance with IAS37.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Description	Impact
Authorisation of journals – subsequent to authorisation of journals finance staff then amend the coding without further authorisation being obtained.	Allocation of expenditure on the wrong cost centre leading to misinformed decision making.
Recommendation – Ensure any coding amendments subsequent to authorisation are also authorised.	
Accounts receivable controls – monthly monitoring of debt levels by management is not evidenced	Debt levels can go unchallenged if the review is not happening, exposing the Council to bad debt risk. Note that the absence of evidence meant we were not able to rely on this control so had to undertake additional substantive testing of year-end debtors.
Recommendation – Ensure management review is properly evidenced by a signature and relevant comments.	
Housing Benefit overpayments – invoices raised to landlords are not followed up in a timely manner. (Invoices were passed to bailiff's as a result of audit queries)	Delays the receipt of income for the Council
Recommendation – Ensure all invoices issued are followed up in line with the Council's Recovery of Housing Benefit and Council Tax Benefit Overpayments procedures.	

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E. In addition to the standard representations, we have requested the following specific representations:

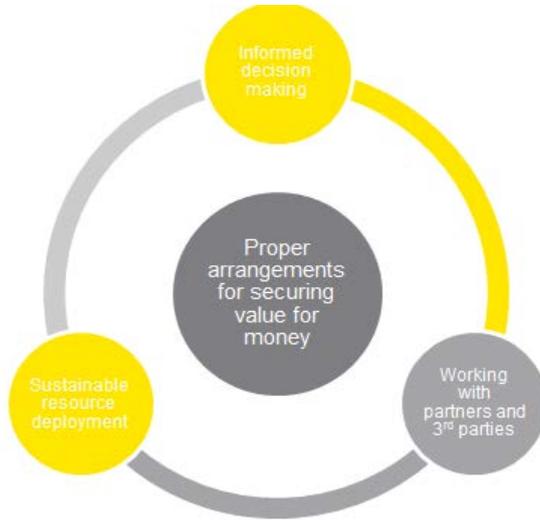
- Use of the work of a specialist
- Business rates appeals provision estimate

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We had no issues to report.

4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

Overall conclusion

We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Appendix A – Corrected audit differences

The following corrected differences, which are greater than our reporting levels, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £'000	Comprehensive income and expenditure statement (Decrease) / Increase £'000
Watford Group accounts reclassification of assets		
Land & buildings	(3,817)	
Assets under construction	3,817	
Watford reclassification of investments		
Investment Watford Health Campus	(6,000)	
Long term debtors Watford Health Campus	6,000	
Cumulative effect of adjusted differences	0	0

Cash Flow statement

Item of cash flow	Operating cash flows (Decrease) / Increase £'000	Investing cash flows (Decrease) / Increase £'000	Financing cash flows (Decrease) / Increase £'000
Other receipts/payments from financing activities			(2,283)
Cash receipts of short term/ long term borrowing			2,283
Group cash flow statement - Reclassification of other receipts / payments from financing activities to cash receipts of short term / long term borrowing			
Cumulative effect of adjusted differences			0

Collection Fund, Balance sheet and Statement of comprehensive income and expenditure

The Collection Fund is a memorandum account which records all the transactions relating to council tax and business rates (NDR). In our judgement the provision relating to NDR appeals is overstated by a contingency element (as described on page 5 above) of £1,500k due to this not having a specific basis, as required by IAS 37.

The Council draws its share of provision from the Collection Fund. The impact of the audit difference on the Council is as follows:

Item of account	Balance sheet (Decrease) / Increase £'000	Comprehensive income and expenditure statement (Decrease) / Increase £'000
NDR appeals provision	600	
NDR Income & Expenditure		600
Cumulative effect of adjusted differences	600	600

Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 14 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 29 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 14 March 2016.

Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee - Code work	TBC	51,975	
Certification of claims and returns	8,316	8,316	

**Our certification of the Housing Benefit claim will be completed to the 30 November 2016 deadline, and the final fee concluded at that time.*

We have completed additional work in respect of;

- review and consultation on seven proposed prior period adjustments
- audit of two prior period adjustments (investment properties and cash flow statement)
- the additional significant risk on PPE valuation
- additional testing and reporting due to not being able to rely on the IT control environment
- additional accounts receivable testing due to not being able to rely on controls
- additional journal testing due to the issues highlighted above

We will discuss and agree an additional fee for the above with management, which will require approval from PSAA.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix D – Draft audit report

Independent auditor's report to the members of Watford Borough Council

Opinion on the Authority's financial statements

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Notes 1-36
- Collection Fund and the related notes 1 to 6

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Watford Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 2, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material

inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council and Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Conclusion on Watford Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority 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 review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy,

efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Watford Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Watford Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Watford Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Watford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Watford Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Andrew Brittain (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Reading

29 September 2016

Appendix E – Management representation letter

29th September 2016

Ernst & Young
Apex Plaza,
Forbury Road,
Reading,
RG1 1YE

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Watford Borough Council (“the Group and Council”) for the year ended 31st March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Watford Borough Council as of 31st March 2016 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and for the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and for the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and for the Council, in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 for the Group and the Council that are free from material misstatement, whether due to fraud or error.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the consolidated and council financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or council financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or council financial statements or otherwise affect the financial reporting of the Group or Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.

3. We have made available to you all minutes of the meetings of the Council, and committees (Council, Overview and Scrutiny Committee, Audit Committee, Cabinet, Budget Panel) held through the year to the most recent meeting on the following date: 29th September 2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 33 to the consolidated and council financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than described in Note 5 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of assets. We have adequately considered the qualifications of the specialists, the methodology applied and the appropriateness of the assumptions made in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists

I. Business Rates Appeals Provision Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate are complete and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
3. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and council financial statements due to subsequent events.

Yours faithfully,

(Director of Finance)

(Chairman of the Audit Committee)

Appendix F – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Watford Borough Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work ▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Plan Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report Annual Audit Letter
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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