

**Watford Borough
Council**
Audit results report
Year ended 31 March 2019

30 July 2019



I

30 July 2019

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Watford Borough Council for 2018/19.

We have substantially completed our audit of Watford Borough Council for the year ended 31 March 2019. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4, before the accounts publication deadline of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 30 July 2019.

Yours faithfully

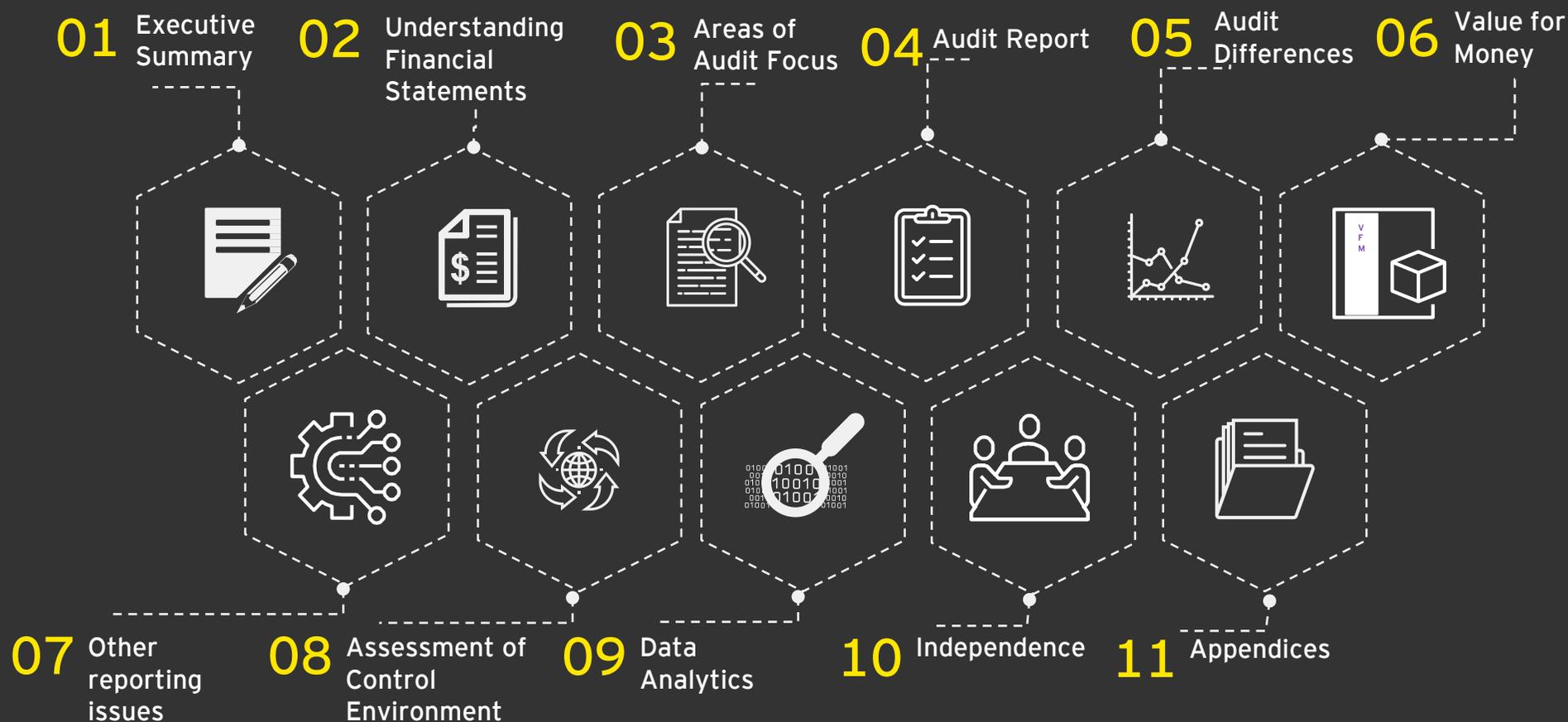
Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This 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 (updated April 2018)' 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 / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 14 March 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

► Changes in materiality.

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1,733,000, with performance materiality, at 50% of overall materiality, of £867,000, and a threshold for reporting misstatements of £87,000. This level of materiality remains appropriate for the actual results for the financial year. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. For the year end, we updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1,576,000. This results in updated performance materiality, at 50% of overall materiality, of £788,000, and an updated threshold for reporting misstatements of £79,000.

Status of the audit

We have substantially completed our audit of Watford Borough Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Leases testing;
- Consultation with auditor specialists on the revaluation of investment properties;
- Housing benefit analytical review;
- Review of assurance letters from management; the Monitoring Officer and those charged with governance;
- Review of revised draft accounts to confirm all accounting and disclosure changes arising from our audit have been actioned;
- Audit Manager and Associate Partner review of audit working papers;
- Completion of subsequent events review;
- Receipt of the signed management representation letter; and
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Audit differences

We identified two unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £74,000. We agree with management's assessment that the impact is not material.

We have also identified one audit difference with an aggregated impact of £1,106,000 which has been adjusted by management. Details can be found in Section 5 Audit Differences.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Watford Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue; and
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk: Acquisition of Leasehold Interest in Croxley Business Park.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We are performing the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. ***Our work was ongoing at the time of writing this report.***

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.

The background of the slide features a close-up, shallow depth-of-field photograph of Euro currency. In the foreground, a 1 Euro coin is in sharp focus, showing its intricate design and the word 'EURO'. Behind it, another coin is slightly out of focus. The background is filled with the textured patterns and colors of Euro banknotes, including a prominent blue note on the left and green notes at the bottom. A dark grey horizontal bar is overlaid on the lower portion of the image, containing the title and a yellow hexagonal icon.

02

Understanding Financial Statements



Understanding Financial Statements

The Council's net cost of services reduced by some £3.6 million during 2018/19 - falling from £34,945,000 to £31,380,000. The biggest driver behind this reduction was the fall in spending on Place Shaping and Performance from £8,964,000 to £6,129,000..

As a result, Net Assets increased by some £2.5 million, rising from £214,535,000 on 31 March 2018 to £217,047,000 on 31 March 2019. The biggest driver behind the overall improvement in the asset position was a fall of £2.4 million in the value of short term liabilities from £25,354,000 to £22,962,000.

Net Assets:

31 March 2018: £ 214,535,000

31 March 2019: £ 217,047,000

Short Term Liabilities:

31 March 2018: £25,354,000

31 March 2019: £22,962,000

Net Cost of Services:

2017/18: £34,945,000

2018/19: £31,380,000

Place Shaping and Performance:

2017/18: £8,964,000

2018/19: £6,129,000



03

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error*

What is the risk?

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.

We believe this risk manifests itself in two areas: accounting for manual journals and investments and long term property revenues - separate risks have been raised for each of these areas.

What judgements are we focused on?

As part of our work we focused on the key judgemental areas of financial statements, such as accounting policies; unusual transactions; and the key accounting estimates.

What did we do?

- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud; and
- ▶ Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Assessed accounting estimates for evidence of management bias; and
- ▶ Evaluated the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work, including carrying out testing on the income and expenditure accounts and journal entry testing.

What are our conclusions?

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position. ***Our work was ongoing at the time of writing this report.***





Areas of Audit Focus

Significant risk

Incorrect accounting for manual accruals*

What is the risk?

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.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.

A key way of improving the revenue position is through inappropriate timing or measurement of estimates, manual accruals around the year end being a typical estimate that could be affected.

What judgements are we focused on?

Correctness of recognition of manual accruals within accounting periods.

What did we do?

We focused our journals testing strategy around the year-end period, with a particular focus on those manual entries that impact income and expenditure.

Where there was any management estimation or assumptions involved in the calculation of year end accruals we ensured that the rationale provided by management was appropriate and clearly documented on file via minutes of conversations held by management.

What are our conclusions?

Our work was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified from testing manual accruals.





Areas of Audit Focus

Significant risk

Incorrect accounting for income from investment and leasehold properties*

What is the risk?

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.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.

A key way of improving the revenue position is through the inappropriate recognition of Investment property rental income from the properties held by the council and from leasehold properties.

We note that whilst such Income may have been £6,885,000 in 2017-18, with the acquisition of Croxley Business Park head lease, this is expected to increase significantly. The acquisition may be completed in the run up to year end and it will be particularly important to ensure that new rental income streams are recognized in the correct year of account.

What judgements were we focused on and what did we do?

We substantively tested a sample of investment property and leasehold property income to confirm it was appropriately accounted for. We noted that exchange of contracts for the acquisition of Croxley Business Park did not occur until after the year end - there were therefore no new income streams associated with the Business Park to account for during 2018-19.

What are our conclusions?

The proposed acquisition of Croxley Business Park did not impact on our work for 2018/19.

Our substantive testing of the 2018/19 income sample was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified.





Areas of Audit Focus

Significant risk

Acquisition of Leasehold Interest in Croxley Business Park

What is the risk?

The proposal has been structured as an “income strip” deal and the Council will have the option to acquire the freehold of Croxley Business Park at the end of the term. Under the proposal the Council will be entitled for forty years to receive the full passing rental income from occupational tenants on the Business Park in return for paying a rent to the vendor.

At inception, CTi will pay the Council a rental top up sum to cover any rent free periods on occupational leases. CTi will also pay the Council a contribution towards planned and preventative maintenance.

The strategy for valuing and impairing the asset over the forty year life of the agreement will obviously impact on the level of write down or revaluation at the end of that period.

The Minimum Revenue Provision made by the Council in connection with this agreement is expected to cover fifty years, in recognition that the life of the asset is expected to outstrip the life of the leasehold agreement with CTi.

The high value of the transactions will significantly impact on the Council's Balance Sheet. There is a risk that financial performance could be distorted or that the oversight of financial reporting in other areas of the account could be affected by the workload of bringing this complex transaction to account at the year end.

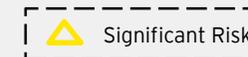
What judgements were we focused on and what did we do?

We noted that exchange of contracts for the acquisition of Croxley Business Park did not occur until after the year end - there was therefore no transaction to account for in 2018-19.

At the time of writing this report, we note that the financial accounting and minimum revenue provision accounting for 2019/20 are still under review by the Authority and it's advisors. The accounting treatments ultimately adopted and any associated revenue management impact will be considered as part of our value for money work for 2019/20.

What are our conclusions?

The accounting treatments ultimately adopted and any associated revenue management impact will be considered as part of our value for money work for 2019/20.



Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Other Land and Buildings (Audit Planning Report)

Land and Buildings within Property, Plant and Equipment were valued at £80,023,000 at 31 March 2018 and Investment Properties were valued at £168,950,000 as at that date. These represent significant balances in Watford Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Detailed valuation work is undertaken by the Council's valuers Bilfinger GVA.

Bilfinger GVA plan to undertake detailed revaluation work at the end of December and the Council plans to apply an adjustment to reflect estimated valuation movements in the last three months of the year. We note that on 29th March 2019 the UK is scheduled to leave the European Union and that fluctuations in value may be more difficult to predict around this time.

Other Additions to the Capital Programme (Audit Planning Report)

2017-18 saw Additions to the Capital Programme of £6,711,000. Even with routine capital acquisitions and enhancements, there is an inherent risk that revenue expenditure (e.g. repairs and maintenance) could be incorrectly capitalised.

What did we do?

We conducted procedures to:

- ▶ Consider the work performed by the Council's valuers Bilfinger GVA, including the scope of the work performed on valuations at 31 December 2018 and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise;
- ▶ Confirm effective procedures were applied by the Council to roll forward valuations from 31 December 2018 to the year end;
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review any assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. Consider changes to useful economic lives as a result of the most recent valuation;
- ▶ Test accounting entries have been correctly processed in the financial statements;
- ▶ Review valuer reports and findings to determine whether specialist EY valuer review of methodologies, data and assumptions is required; and
- ▶ Horizon scan as the UK prepares to leave the European Union.

Our work was still ongoing at the time of writing this report. In particular we were awaiting input from valuation specialists to support our assessment of assumptions, data and methodology applied by GVA Bilfinger.

We conducted procedures to:

Sample test additions to Property, Plant and Equipment to confirm they meet appropriate criteria for capitalisation. There were no adjusted or unadjusted errors identified from our work.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Pension Fund Assets and Liabilities (Audit Planning Report)

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council.

Watford Borough Council's pension fund assets and liabilities are material estimated balances and the Code requires that the liability be disclosed on the Council's balance sheet. At 31 March 2018 the net liability was valued at £58,049,000. As noted in our Audit Results Report for 2017-18, this balance was stated gross of an adjustment to increase pension fund assets by £1,800,000, being Watford's share of the difference between the actuary's valuation of the Pension Fund's assets and the Fund's auditor's assessment of those asset values.

Asset and Liability values captured in Watford Borough Council's 2018-19 accounts will again derive from information issued to the Council by the actuary to Hertfordshire County Council and will again involve significant estimation and judgement.

We note that on 29th March 2019 the UK is scheduled to leave the European Union and asset values may be particularly difficult to estimate around this time. We note also that 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.

Valuation of NNDR Appeals Provision (Audit Planning Report)

Watford Borough Council's NNDR Appeal Provision was valued at £6,831,000 at 31 March 2018. This is a high value estimate driven by complex calculations.

What did we do?

We conducted procedures to:

- ▶ Liaise with the auditors of Hertfordshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Watford Borough Council.
- ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used.
- ▶ Review and test the accounting entries and disclosures made within Watford Borough Council's financial statements in relation to IAS19.

The net Pension Liability was valued at £61,947,000 by Hymans Robertson in their 12th April 2019 IAS19 Accounting Summary to Watford Borough Council.

However, a national issue resulted in a relatively late change to the District Council accounts and IAS19 disclosures. It related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The unaudited Statement of Accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the ruling by the Supreme Court on 27th June 2019 which denied the Government's leave to appeal, which suggested that the amounts should in fact be treated as a constructive obligation and so included in the IAS19 liability disclosed within the financial statements. On 28 June 2019, a revised actuarial report was issued by Hymans Robertson restating this to £63,053,000.

Our work was ongoing at the time of writing this report. The increase in the overall value of the defined benefit liability will be reflected in a revised version of the accounts, and work to ensure the correct adjustment is ongoing as at the date of drafting this report.

We conducted procedures to:

Consider the work performed by Inform, including the scope of the work, data provided to Inform and assumptions used; and compare the level of appeals at 31 March 2019 and 31 March 2018 to assess the reasonableness of amounts provided for at year end.

There were no issues identified from our work.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

New Accounting Standards (Audit Planning Report)

IFRS 9 financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

What did we do?

We conducted procedures to:

- ▶ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Consider the classification and valuation of financial instrument assets;
- ▶ Review new expected credit loss model impairment calculations for assets; and
- ▶ Check additional disclosure requirements.

There were no issues identified from our work.

We conducted procedures to:

- ▶ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include Local Authority Trading Companies consolidated into the Authority's Group Accounts;
- ▶ Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Check additional disclosure requirements.

There were no issues identified from our work.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What was the risk/area of focus?

Group Accounting (Audit Planning Report)

Watford Borough Council holds a 50% interest in Watford Health Campus Partnership LLP and Hart Homes (Watford) Limited. Both are consolidated into the financial statements using the equity method of accounting. In the 2017-18 draft financial statements, an alternative set of accounting entries had initially been applied. As the 2017-18 Audit Results Report showed, adjusting entries were subsequently made, resulting in both prior and current year adjustments.

We note that the timing of PWC providing an opinion on Watford Health Campus Partnership's accounts meant that the Council missed the 31 July deadline for filing its own audited group accounts.

What did we do?

We conducted procedures to

Assess the scope of group audit work once the impact of the acquisition of Croxley Business Park head lease was known not to affect the 2018-19 financial statements.

Review proposed consolidation accounting entries before the start of the year end audit and confirm that the proposed method of group accounting is appropriate for the relative size of the year end group.

Liaise early with PWC regarding timetable for group audit returns and monitor receipt of returns throughout the audit process.

Our procedures were still ongoing at the time of writing this report. No adjusted or unadjusted errors had been identified from our work.



04 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATFORD BOROUGH COUNCIL

Opinion

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Movement in Reserves Statement;
- Authority Comprehensive Income and Expenditure Statement;
- Authority Balance Sheet;
- Authority Cash Flow Statement;
- The related notes 1 to 36 to the Authority accounts;
- Collection Fund and the related notes CF1 and CF2; and
- The Group Accounts and related Notes.

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2019 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 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, 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 2019.

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



Audit Report

Draft audit report

Our opinion on the financial statements

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 1, 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so. 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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 2017, 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 2019.

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.



Audit Report

Our opinion on the financial statements

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.

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.

Use of our report

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.

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
31 July 2019

The maintenance and integrity of the Watford Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

A woman with long brown hair, wearing a dark sleeveless top, is pointing her right index finger at a large digital display wall. The wall is filled with various financial charts, including line graphs and bar charts, and data tables. The background is a dimly lit room with blue ambient lighting.

05 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £788,000 which have been corrected by management that were identified during the course of our audit:

Net Pension Liabilities increased by £1,106,000. Total Comprehensive Expenditure also increased by £1,106,000.

As more fully explained in Section 3, this change was to reflect the impact of legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **Audit Committee** and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2019 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase			
		Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Equity
Errors					
Known differences:					
Understatement of Prior year PPE balance (Audit team identified)		375,000			(375,000)
Understatement of short term creditor balances (Audit team identified)	(200,000)			200,000	
Judgemental differences:					
Balance sheet totals					
Income effect of uncorrected misstatements (before tax)					
Cumulative effect of uncorrected misstatements before turnaround effect					
Turnaround effect. See Note 1 below.					
Cumulative effect of uncorrected misstatements, after turnaround effect					

There are no amounts that we identified that are individually or in aggregate material to the cash flows or to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2019.

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period.

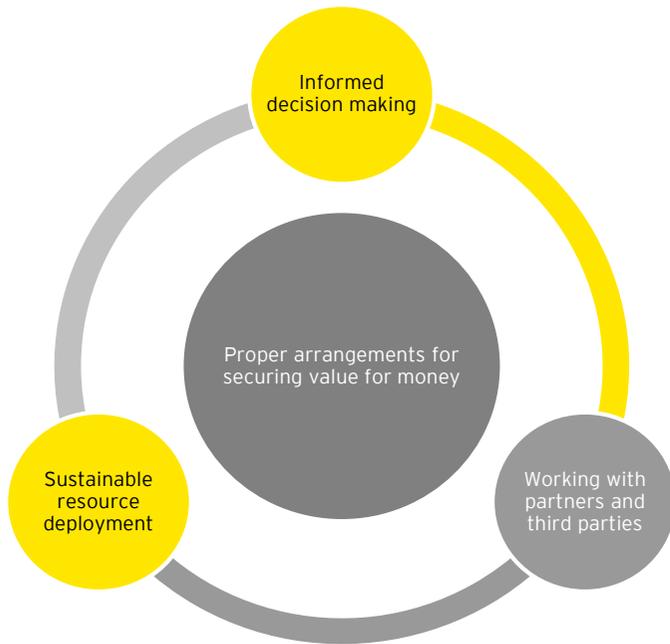


06

Value for Money Risks



Value for Money



Background

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.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified one significant risk around these arrangements. The tables below present our findings in response to the risk in our Audit Planning Report.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other matters to bring to your attention

What is the significant value for money risk?

Acquisition of Leasehold Interest in Croxley Business Park

As noted earlier in this report, a high value head lease acquisition opportunity was presented to the Council in the closing part of 2018/19. The acquisition of the head lease represents a forty year commitment that will significantly change the pattern of the Council's cash flows. It will be important that robust processes support decision making on the deal and that the impact on medium to long term financial resilience is understood by those making the decision.

The Council commissioned specialist input from a number of sources, including:

- Grant Thornton for financial modelling and accounting advice;
- Link Asset Services for treasury advice;
- Trowers and Hamlin LLP for due diligence, procurement, and governance advice;
- Chapman Petrie LLP for validation of assumptions used by other specialists;
- Lambert Smith Hampton Investment Management and Building Services for market and letting advice and due diligence; and
- Montague Evans- service charge analysis focusing on appropriate market supportable levels of service charge.

The scope of work commissioned; the amount of time available for analysis; the quality of information provided to specialists; and the effectiveness of the Council's processes for evaluating specialist findings will all impact on the ultimate quality of processes followed to secure value for money for the Council and it's stakeholders.

What arrangements does the risk affect?

Arrangements potentially affected are the Council's ability to:

- Take informed decisions; and
- Deploy resources in a sustainable manner.

What will we do?

Exchange of lease contracts did not occur until 21 June 2019 i.e. until after the end of the reporting period. At the time of writing this report, completion had just occurred on 26 July 2019. The transaction is expected to add £240 million to the Authority's non current assets and finance lease liabilities. An upfront payment of £88 million and £5 million worth of stamp duty was due to be received by the Authority on completion and £92 m has been received, the lease has an initial annual payment of £9.2m which will increase annually by inflation with a collar 0% and a cap of 5%.

Our procedures for 2018/19 therefore focused on:

Confirming that the commissioned specialist advice was received within pre year end timescales that were useful to inform decision-making. We noted that the scope of advice received included:

- An assessment of strengths, weaknesses, opportunities and threats associated with the underlying asset;
- Advice on financial modelling and accounting;
- Legal due diligence, including checks on the vendor's right to sell; and
- Treasury management advice around the £88 million due to be received on completion.

Confirming that appropriate scrutiny had been applied by Cabinet and Full Council to the decision making process - both having been cited on the transaction since January 2019.

At the time of writing this report, we note that the financial accounting and minimum revenue provision accounting for 2019/20 are still under review by the Authority and it's advisors. The accounting treatments ultimately adopted and any associated revenue management impact will be considered as part of our value for money work for 2019/20.



07 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Annual Governance Statement with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Annual Governance Statement and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report. Our work was still subject to Manager and Associate Partner review at the time of writing this report.

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, is specified by the National Audit Office.

We have not yet completed our work in this area and will report any matters arising to the Audit Committee.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



08

Assessment of Control Environment



Assessment of Control Environment

Financial Controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



09

Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19 our use of these analysers in the authority's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

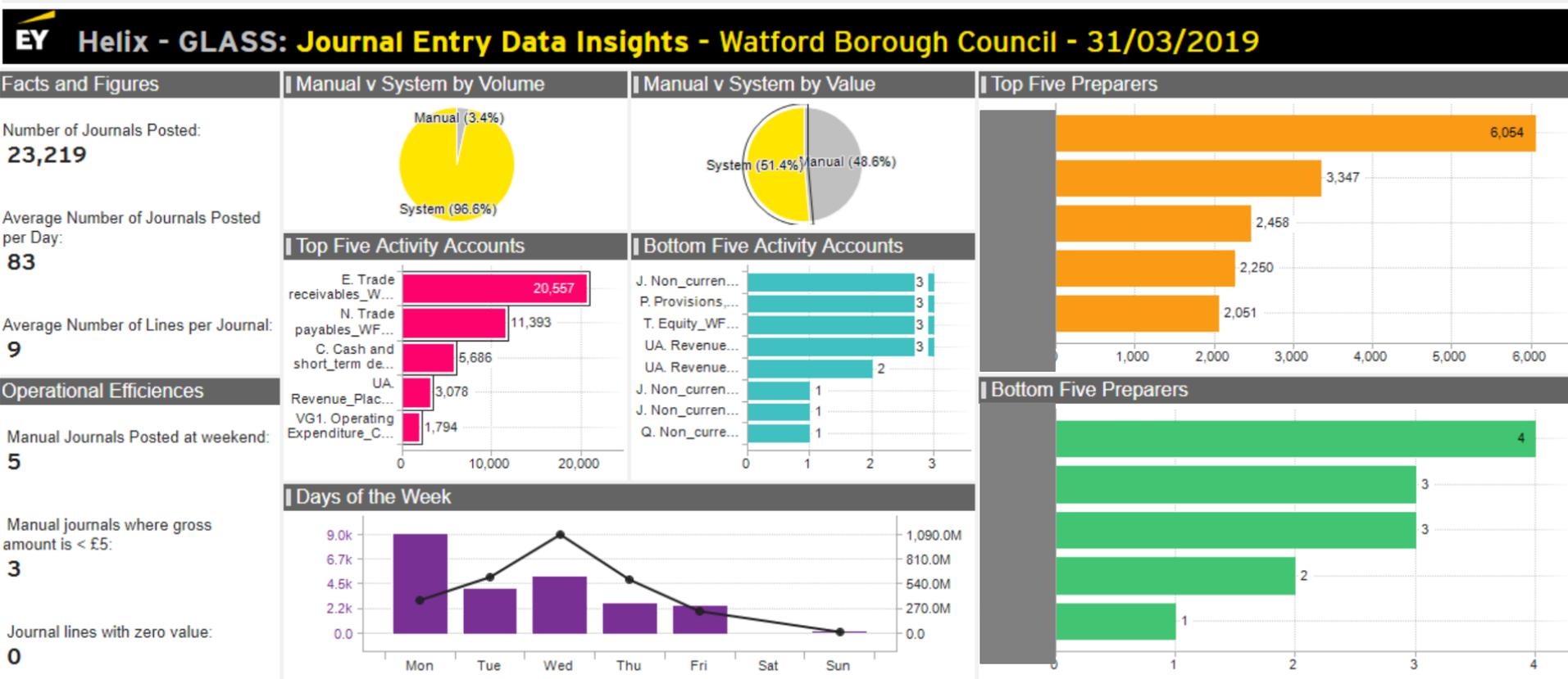
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





Journal Entry Testing

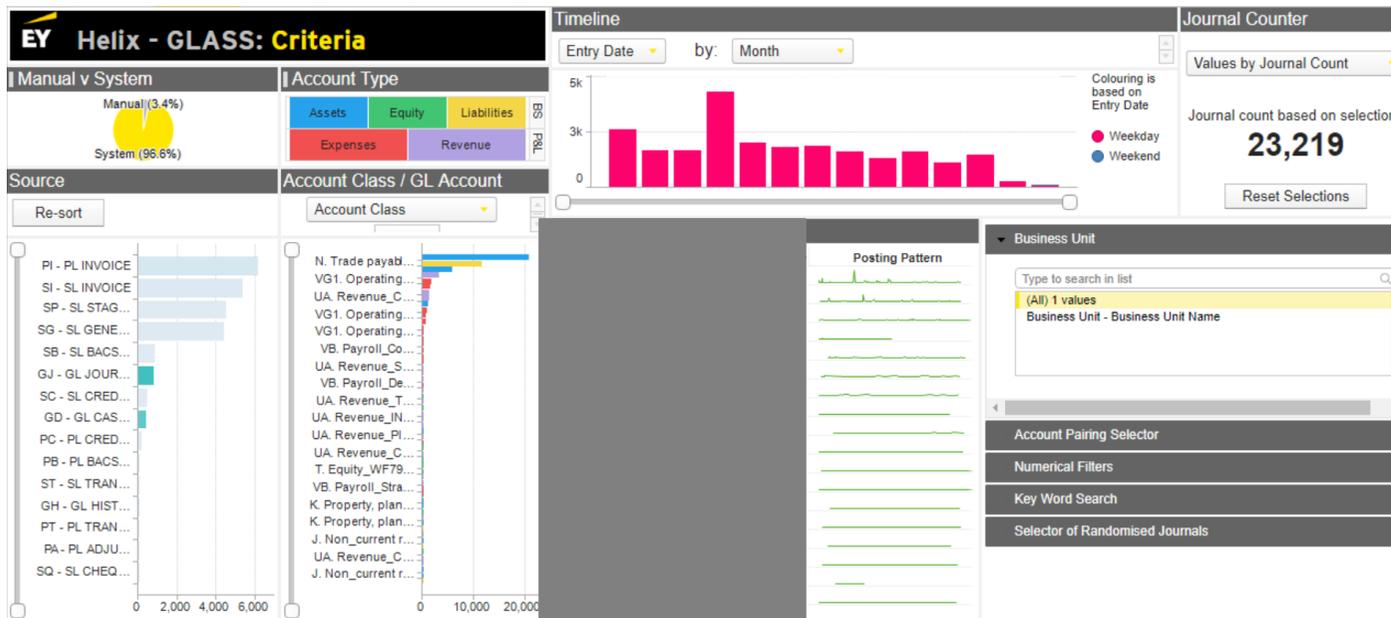
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2019



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



10

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 27 February 2019.

We complied with the FRC Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 30th July 2019.

We confirm we have not undertaken non-audit work outside the NAO Code requirements other than certification of HB grant claims.

Independence

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The following page of this report includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements other than HB grant claim certification. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee - Code work	TBC	40,021	40,021	62,707
Non-audit work (HB Grant claims certification)	TBC	10,602 plus £1,000 - £4,000 per 40+	10,602 plus £1,000 - £4,000 per 40+	15,268



11 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all relevant assertions	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Trade payables	Substantively tested all relevant assertions	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

Appendix B

Summary of communications

Date 	Nature 	Summary 
10 th January 2019	Liaison Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss planning for audit issues.
26 th February 2019	Liaison Meeting	The partner in charge of the engagement along with other senior members of the audit team, met with the management team to discuss audit progress and audit issues.
14 th March 2019	Audit Committee	The manager and the partner attended the Audit Committee meeting and presented the Audit Plan.
30 th July 2019	Audit Committee	The manager attended the Audit Committee to present the results of our work.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<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 	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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 together to raise any doubt about Watford Borough Council's ability to continue for the 12 months from the date of our report.

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Misstatements	<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 ▶ Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	No subsequent events have been identified that would impact either individually or together on Watford Borough Council's financial statements as at 31 March 2019
Fraud	<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 Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report
Related parties	<p>Significant matters arising during the audit in connection with the Authority'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 Authority 	Audit results report

Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report and Audit results report
External confirmations	<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
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ 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 asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report and Audit Results Report

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Watford Borough Council ("the Council") for the year ended 31 March 2019. 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 financial statements give a true and fair view of the Council financial position of Watford Borough Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with [CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/10.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the 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 Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Council, we believe that the Council has 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 2018/19, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management representation letter

Management Representation Letter

B. Non-compliance with law and regulations, including fraud

We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

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.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 30 July 2019.

Management representation letter

Management Representation Letter

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

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 financial statements all guarantees that we have given to third parties.

. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Ownership of Assets

The Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

Appendix D

Management representation letter

Management Representation Letter

Reserves

We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged and have adequately considered the qualifications of the specialists 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.

Business Rates Provision

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Chief Financial Officer

Chair of the Audit Committee

Appendix D

Management representation letter

Management Representation Letter

Schedule of Unadjusted Known Errors	Comprehensive income and expenditure statement Debit/(Credit) £	Assets current Debit/ (Credit) £
PPE PY Adjustment (Audit team identified)		375,000
Understatement of short term creditor balances (Audit team identified)	(200,000)	200,000
Balance sheet totals		

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