Watford Borough Council
Draft audit results report

Year ended 31 March 2021

21 July 2021

Building a better working world

Private and Confidential

21 July 2021

Dear Audit Committee Members

We have substantially completed our audit of Watford Borough Council for the year ended 31 March 2020.

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 that appears in section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This 2019/20 audit has been significantly delayed. This has been a challenging year and the Council has had to deal with a much wider range of issues and so has not been able to prioritise the completion of the audit as they would have hoped to. We are keen to get the Council back on track and are already agreeing plans for the 2020/21 audit with your key officers to ensure a timely completion.

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 29 July 2021.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

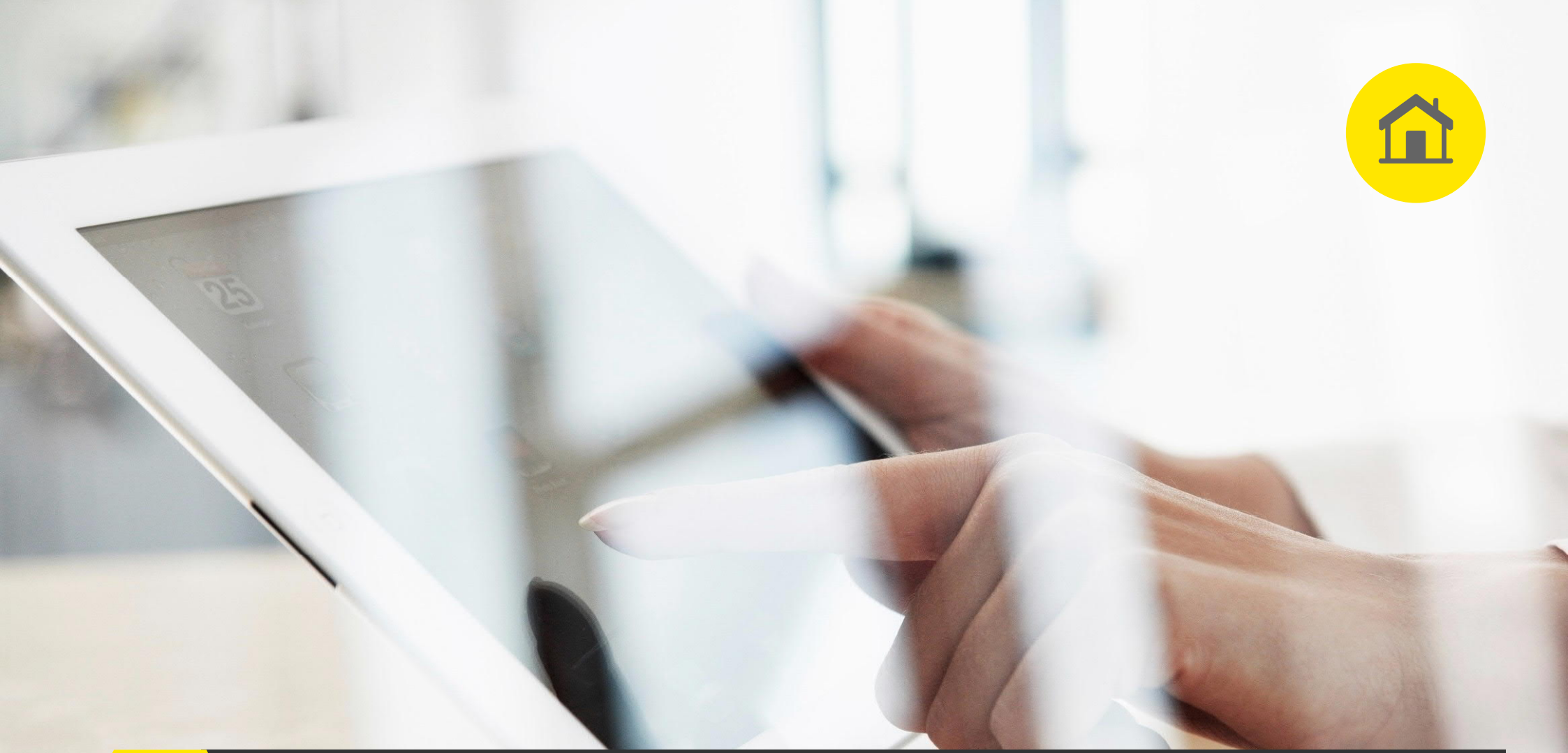
Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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 24 March 2020 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 to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- Disclosures on Going Concern – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Adoption of IFRS16 – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1,590k, with performance materiality, at 75% of overall materiality, of £1,190k, and a threshold for reporting misstatements of £79k. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

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 £1,633k (Audit Planning Report – £1,590k). This resulted in updated performance materiality, at 75% of overall materiality, of £1,225k, and an updated threshold for reporting misstatements of £81.7k.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee in Section 9.

Executive Summary

Status of the audit

We have substantially completed our audit of Watford Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. We plan to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. We will issue the audit certificate at the same time as the audit opinion.

Audit differences

To date, we have identified four 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 £139k. We agree with management's assessment that the impact is not material.

We have also identified a number of audit differences which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Executive Summary

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.

Audit findings and conclusions: Significant risk - Incorrect accounting for manual accruals - risk of fraud in revenue and expenditure recognition

- £1,251,031 was treated as a receipt in advance, but should have been posted to earmarked reserves.
- £1,102,228 reclassification of rental deposits for Croxley Park where they are not expected to be repaid within a year, from short term to long term creditors.
- A reclassification error of £190,000 was identified, where an agreement on Avenue Car Park, between the Council and Hertfordshire Council, had been shown as £200,000 in short term creditors, but £190,000 of this should have been in long term creditors.
- £105,123 was overstated in short term creditors due to the incorrect cut-ff of Croxley Park rental receipts.
- Our cut-off testing identified an error of £2,423, which when extrapolated over the population amounts to a potential error of £232,331.
- Our substantive year end creditor testing identified a further 5 errors, which when extrapolated over the population amounts to a potential error of £101,122.

Audit findings and conclusions: Significant risk – Incorrect accounting for income from investment and leasehold properties

- Our testing identified a £137,293 variance between the interest charged for 2019/20 per the lease schedule (£3,813,687) and the amount recorded in the general ledger (£3,950,980).

Audit findings and conclusions: Significant risk – Accounting for the Acquisition of Croxley Business Park

We worked both with your staff and our specialists to clarify the exact nature of this acquisition and several adjustments were required to the accounts;

- £68,000,000 reclassification of Croxley Park for Planned Property Maintenance (PPM) from long term liabilities to capital grants unapplied.
- £24,000,000 reclassification of Croxley Park for future rental top-up from long term liabilities to earmarked reserves.
- £3,690,487 capital payment of Croxley Park Finance Lease due in 1 year had been classified as a long term creditor instead of a short term creditor.
- £1,251,031 reclassification of Croxley Park for future rental top-up utilised in year, from short term liabilities to earmarked reserves.

Executive Summary

Areas of audit focus

Audit findings and conclusions: Significant risk - Valuation of Land and Buildings

- £13,879,658 reclassification of vehicles, plant and equipment to community assets (£2,062,387), infrastructure (£7,578,879) and land and buildings (£4,238,391).
- £1,369,295 reclassification of land and buildings to community assets.
- £8,370,459 unallocated capital expenditure on the fixed asset register (FAR) for land & buildings. This meant these amounts were double counted as valuers take into account any additions as part of the valuation exercise, i.e. Items on FAR included in valuers valuation of assets and on FAR as additions not allocated to an asset.
- £7,800,000 correction of the valuation of investment properties for Harlequin Shopping Centre, it was previously overstated.
- £5,016,000 investment property errors on revaluation due to formula errors on the fixed asset register spreadsheet, (upwards revaluation overstated by £5,316,000 and downwards revaluation overstated by £300,000).
- £1,322,660 reclassification of rent-to-mortgage properties from long term debtors to property, plant and equipment.
- £1,250,000 error due to the fact that a revaluation decrease to the CIES has been reported in the accounts with the wrong sign (should have been -£625,000 rather than £625,000).
- £630,850 heritage assets were valued incorrectly, they had been undervalued.
- £131,407 arithmetic error in one of the valuers calculations for yield in perpetuity and PV calculation in the valuation, leading to an understatement in land and buildings.

Audit findings and conclusions : Area of audit focus - Going concern and Covid-19

We have not identified any issues regarding going concern. Our consultation on the going concern disclosure is currently underway.

Audit findings and conclusions : Area of audit focus – Valuation of Pension Fund Assets and Liabilities

- The McCloud ruling meant that the remeasurement of the defined pension liability needed to be amended by £137,000, but the authority have adjusted past service cost instead of other operating income.
- Through the audit of the pension fund, the pension fund auditor noted there were differences in asset values in the fund. The pension fund auditor noted that once apportioned to Watford Borough Council, this would result in a difference of £648,000 downwards in the asset values disclosed in the IAS19 report.

Audit findings and conclusions : Area of audit focus – Valuation of NDR Appeals Provision

We have not identified any material misstatements arising from the valuation of the non-domestic rates appeals provision.

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
- 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 identified a control deficiency in relation to the Council's capital financing requirement (CFR) and minimum revenue provision (MRP) record keeping as they were not able to produce a breakdown of its £32.4 million outstanding CFR on an asset by asset basis. See Section 2 for further details.
The decision on what is prudent is for the Council to make. Management agreed to amend the accounts to include a provision of £83,000 and we therefore accept that the Council has complied with its statutory duty to make a revenue provision it considers to be prudent.
However in our view, whilst the Council has made a provision, a charge of £83,000 is aggressive as it would take 385 years for the Council to cover its capital financing requirement of £32.4 million at that level of provision. We therefore recommend the Council reconsiders whether its current MRP policy leads to prudent provision.
See page 20 for further details.

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

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.
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 have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Incorrect accounting for manual accruals - risk of fraud in revenue and expenditure recognition

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 on 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.

In addition to the focused review of manual accruals, our work was part of a suite of mandatory procedures performed regardless of specifically identified fraud risks. This included:

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

To support our work on mandatory procedures, 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?

Our testing identified the following mis-statements:
- £1,251,031 was treated as a receipt in advance, but should have been posted to earmarked reserves.
- £1,102,228 reclassification of rental deposits for Croxley Park where they are not expected to be repaid within a year, from short term to long term creditors.
- A reclassification error of £190,000 was identified, where an agreement on Avenue Car Park, between the Council and Hertfordshire Council, had been shown as £200,000 in short term creditors, but £190,000 of this should have been in long term creditors.
- £105,123 was overstated in short term creditors due to the incorrect cut-ff of Croxley Park rental receipts.

These errors have now been corrected on the revised statement of accounts.

- Cut-off testing identified an error of £2,423, which when extrapolated over the population amounts to a potential error of £232,331.
- Substantive creditor testing identified a further 5 errors relating to cut-off issues, which when extrapolated over the population amounts to a potential error of £133,714.

There were no further matters identified that we need to report to you.

Significant risk

Incorrect accounting income from investment and leasehold properties - risk of fraud in revenue and expenditure recognition

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.

What judgements are we focused on?

As 2019-20 will be the first year of managing and accounting for the Croxley Business Park, this will be the first year of allocating income streams to correct accounting periods for this asset and therefore recognized income could be more prone to fraud or error.

What did we do?

We have reviewed a sample of investment property and leasehold property income to confirm it is appropriately accounted for, particularly around the year end, given this is the first year of allocating income streams to correct accounting periods for this asset and could be more prone to fraud or error.

What are our conclusions?

Our testing identified a £137,293 variance between the interest charged for the year end 31/03/2020 per the lease schedule (£3,813,687) and the amount recorded in the general ledger (£3,950,980).

This error has now been corrected on the revised statement of accounts.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Significant risk

Accounting for the Acquisition of Croxley Business Park

What is the risk?

The Croxley Business Park acquisition will potentially materially affect not only Land and Buildings and Leasehold Creditors on the Statement of Financial Position but also other areas of the financial statements – income from investment properties, for example.

Areas of accounting treatment to consider include:

- valuation of the liability and the asset, including NPV calculations, asset life and incremental borrowing rate;
- financing and MRP;
- substance of cash back received at inception of the lease; and
- revisiting the conclusion last year to treat as an operational asset.

What judgements are we focused on?

A large number of new transaction streams will be brought to account at a time when there is expected staff turnover within the Authority's finance team. It will be important that learning is captured and shared as the accounting treatment is reviewed, agreed and implemented.

What did we do?

We continued to work with your finance team to understand and review the accounting treatment and we consulted with our Financial Audit and Advisory Services specialist in this area. We have advised you of the scope and cost of EY accounting specialist input as the accounting treatment is made clear.

We revisited testing thresholds within affected areas and ensured that our usual procedures have continued to meet the normal expectations of readers of the accounts.

We have retained documents of the agreed accounting treatment to support year on year comparisons as the asset progresses through it's life cycle. We have confirmed that similar arrangements are in place within the authority.

For the year end valuation of the Business Park, we have reviewed data and assumptions and methodology of management's experts. As the asset is new and the leasehold interests are various, we engaged with EY internal valuers for an assessment of the valuation reported.

What are our conclusions?

We worked both with your staff and our specialists to clarify the exact nature of this acquisition and several adjustments were required to the accounts;

- £68,000,000 reclassification of Croxley Park for Planned Property Maintenance (PPM) from long term liabilities to capital grants unapplied.

- £24,000,000 reclassification of Croxley Park for future rental top-up from long term liabilities to earmarked reserves.

- £3,690,000 capital payment of Croxley Park Finance Lease due in 1 year had been classified as a long term creditor instead of a short term creditor.

- £1,251,031 adjustment to long term receipts in advance was required, since it hadn't been adjusted for the current year. It was recorded at £24,000,000 but it should have been £22,748,969 after using £1,251,031 in year.

Our work did not identify any other material issues we need to report to you.

Significant risk

Valuation of Land and Buildings

What is the risk?

Land and Buildings within Property, Plant and Equipment were valued at £90,769,000 at 31 March 2019 and Investment Properties were valued at £174,133,000 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.

What judgements are we focused on?

The value of property, plant and equipment was £90,769,00 in 2018/19 and is now being reported at £357,500,000 for 2019/20. Investment properties were valued at £174,133,000 in 2018/19 and £173,353,000 in 2019/20.

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.

Following the Covid-19 outbreak in March 2020, there is potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports.

This is particularly relevant for Fair Value / Market Value based assets because of the paucity of market information available at 31 March upon which to give those valuations.

Significant risk - Valuation of land and buildings (continued)

What did we do?

We have:

- Considered the work performed by the Council's valuers Avison Young, including the scope and timing of the work performed on valuations and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise;
- Confirmed that effective procedures are applied by the Council to any roll forward valuations from 31 December 2019 to the year end;
- Considered 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 also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed any assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated. We have considered changes to useful economic lives as a result of the most recent valuation;
- Tested accounting entries to ensure they have been correctly processed in the financial statements; and
- Reviewed valuer reports and findings, which determined our specialist EY valuer was required to review of methodologies, data and assumptions.

What are our conclusions?

Our testing identified the following mis-statements:

- £13,879,658 reclassification of vehicles, plant and equipment to community assets (£2,062,387), infrastructure (£7,578,879) and land and buildings (£4,238,391).
- £1,369,295 reclassification of land and buildings to community assets.
- £8,370,459 there was unallocated capital expenditure on the fixed asset register (FAR) for land & buildings. This has meant these amounts have been double counted as valuers take into account any additions as part of their valuation exercise, i.e. Items on FAR included in valuers valuation of assets and on FAR as additions not allocated to an asset.
- £7,800,000 correction of the valuation of investment properties for Harlequin Shopping Centre, it was previously overstated.
- £5,016,000 investment property errors on revaluation due to formula errors on the fixed asset register spreadsheet, (upwards revaluation overstated by £5,316,000 and downwards revaluation overstated by £300,000).
- £1,322,660 reclassification of rent-to-mortgage properties from long term debtors to property, plant and equipment.
- £1,250,000 error due to the fact that a revaluation decrease to the CIES has been reported in the accounts with the wrong sign (should have been -£625,000 rather than £625,000).
- £630,850 heritage assets were valued incorrectly, they had been undervalued.
- £131,407 arithmetic error in one of the valuers calculations for yield in perpetuity and PV calculation in the valuation, leading to an understatement in land and buildings.

Our work in this area has not been completed at the time of writing this report.

Other areas of audit focus

Going Concern and Covid-19 (higher inherent risk)

What is the risk?

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. This results in significant judgement to conclude whether events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Authority's ability to continue as a going concern. This judgement will determine the appropriate disclosures to be made in the financial statements, which will be reflected in the audit report.

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 emphasises the need for the Council to undertake a detailed going concern assessment to support its assertion.

What judgements are we focused on?

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Authority's assessment will also need to cover this period.

Other areas of audit focus (Going concern – continued)

What did we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of future government support, we sought a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.

We reviewed the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We considered whether the necessary disclosures had been included regarding any material uncertainties that do exist.

We considered whether these disclosures also included details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).

Our audit procedures to review these included consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting;
- Sensitivities and stress testing; and
- Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.

What are our conclusions?

We have reviewed the disclosures and supporting assessment, we have received today the final updated cash flow and this will go through our consultation process. Once this is completed we will be able to conclude in this area.

Other areas of audit focus

Valuation of Pension Fund Assets and Liabilities (higher inherent risk)

What is the risk?

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 2019 the net liability was valued at £63,053,000. As noted in our Audit Results Report for 2018-19, this balance was stated gross of an adjustment to increase pension fund liabilities by £1,106,000, to reflect the impact of the McCloud ruling.

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.

What did we do?

We have:

- Liaised 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;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used; and
- Reviewed and tested the accounting entries and disclosures made within Watford Borough Council's financial statements in relation to IAS19.

What are our conclusions?

The McCloud ruling meant that the remeasurement of the defined pension liability needed to be amended by £137,000, but the authority have adjusted past service cost instead of other operating income.

Through the audit of the pension fund the auditor it was noted there were differences in asset values in the fund. The pension fund auditor noted that once apportioned to Watford Borough Council, this would result in a difference of £648,000 downwards in the asset values disclosed in the IAS19 report.

No other issues were identified.

Other areas of audit focus

Valuation of NDR Appeals Provision (higher inherent risk)

What is the risk?

The valuation of NDR appeals provision is a high value estimate, with complex calculations. This means that their could be a material mis-statement in the accounts if this has been calculated incorrectly.

What judgements are we focused on?

Watford Borough Council's NNDR Appeal Provision was valued at £5,700,000 at 31 March 2019. This is a high value estimate driven by complex calculations.

What did we do?

We have:

- Considered the work performed by Inform, including the scope of the work, data provided to Inform and assumptions used; and
- Compared the level of appeals at 31 March 2019 and 31 March 2020 to assess the reasonableness of amounts provided for at year end.

What are our conclusions?

Our testing has not identified any material misstatements of the non-domestic rate appeals provision.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Other areas of audit (Minimum revenue provision)

The issue and what did we do?

Watford Borough Council are required, under the 2003 Local Government Act, to charge Minimum Revenue Provision (MRP) to its revenue account in each financial year. In calculating a prudent provision, local authorities are required to have regard to statutory guidance issued periodically by MHCLG.

MHCLG consider that the methods of making prudent provision include the options set out in its guidance but does not rule out or preclude a local authority from using alternative methods of making prudent provision should it decide that is more appropriate.

However the current guidance clearly states a charge to a revenue account for MRP can only be £nil if a local authority's CFR was nil or negative on the last day of the preceding financial year; or a local authority chooses to offset a previous year's overpayment against the current year's prudent provision. As at 31 March 2019 the Council has a brought forward capital financing requirement of £32.4 million. In 2019/20 the draft accounts had a £nil MRP charge which is a divergence from the guidance.

We challenged the Council's position as follows:

- Requested a breakdown of the £32.4m CFR balance into relevant categories such as capital loans and investments; expenditure on investment property and additions to property plant and equipment. Officers were unable to do this.
- Asked officers to justify not charging any MRP in 2019/20 reviewing correspondence from the Council's treasury management advisors in the process.
- Reviewed the current MRP policy for adequacy

As a result of our challenge officers have agreed to:

- Amend the Council's MRP policy to reflect accounting for MRP in the year of acquisition for Commercial properties in view of the short term nature of these acquisitions. In our view the policy should also include MRP on capital loans to and investments in 3rd parties, and explain the approach in relation to its historic CFR from 1 April 2017 which should also be supported.
- Charge MRP of £83,000 in 2019/20 on unfinanced capital expenditure incurred in 2018/19. We welcome this adjustment but note that this approach only covers £3.5m of the £32.4m unfinanced as at 31 March 2019. There is no MRP planned to cover the remaining £28.9m unfinanced capital expenditure. The £83,000 charge is an estimate based on a 40 year life and allocation of financing in 2018/19 which has not been verified by Officers.
- Charge MRP of £4.1m in 2020/21. There are two concerns with this proposal (which does not impact the 2019/20 audit).

1. Charging MRP at this rate continues to understate MRP in relation to the £32.4m unfinanced as at 31 March 2019.
2. This charge assumes an estimated useful life of 60 years for the £237m of unfinanced capital expenditure incurred in 2019/20. The statutory guidance sets clear conditions for the use of the asset life method (option 3). Where a local authority uses any methodology that has the UL of assets as a component to the calculation, it should normally not exceed a maximum UL of 50 years. Local authorities can exceed this maximum where a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years. In which case it can use the life suggested by its professional advisor. Officers should obtain this professional view or cap the useful life being used at a maximum of 50 years.

Other areas of audit focus (Minimum revenue provision)

What are our conclusions?

We recommend:

1. Revisit the MRP policy to ensure that it leads to a more prudent provision being made by the Council in line with MHCLG statutory guidance.
2. Review the £32.4m CFR as at 31 March 2019 so that it is clear how much relates to PPE; Investment Property; capital loans; and capital investments.
3. Determine the useful lives of all items which remain unfinanced, seeking the opinion of a suitably qualified professional where appropriate (this will be the case where the Council deems the asset life exceeds 50 years).
4. Calculate MRP charges going forward sufficient to cover all the outstanding CFR in a reasonable time frame.

Control deficiency:

As part of our review of the CFR and MRP systems within the Council we noted that officers were unable to produce a breakdown on an asset by asset basis of the Council's £32.4m capital financing requirement as at 31 March 2019.

In conclusion, whilst the Council has made a provision, a charge of £83,000 is aggressive as it would take 385 years for the Council to cover its capital financing requirement of £32.4 million at that level of provision. We therefore recommend the Council reconsiders whether its current MRP policy leads to prudent provision.

03 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 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- The related notes 1 to 38;
- 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2020 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 2019/20.

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.

Draft Audit Report (continued)

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 April 2020, we are satisfied that, in all significant respects, [name of body] put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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.

Draft Audit Report (continued)

Our opinion on the financial statements

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer 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 2019/20, 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 April 2020, as to whether the 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 the 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 2020.

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, the Watford Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.

Draft Audit Report (continued)

Our opinion on the financial statements

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
August 2021

04 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 £81,664 which have been corrected by management that were identified during the course of our audit:

- £68,000,000 reclassification of Croxley Park planned property maintenance, from long term liabilities to capital grants unapplied.
- £24,000,000 reclassification of Croxley Park for future rental top-up, from long term liabilities to earmarked reserves.
- £13,879,658 reclassification of vehicles, plant and equipment to community assets (£2,062,387), infrastructure (£7,578,879) and land and buildings (£4,238,391).
- £8,370,459 overstatement of land and buildings due to capital expenditure being double counted.
- £7,800,000 correction of the valuation of investment properties for Harlequin Shopping Centre, it was previously overstated.
- £5,016,000 investment property overstated (upwards revaluation overstated by £5,316,000 and downwards revaluation overstated by £300,000).
- £3,690,487 reclassification of capital payment of Croxley Park finance lease due in one year, from long term liabilities to short term liabilities.
- £1,369,295 reclassification of land and buildings to community assets.
- £1,322,660 reclassification of rent-to-mortgage properties from long term debtors to property, plant and equipment.
- £1,250,928 correction of a revaluation decrease to the CIES. A £625k posting had previously been posted using incorrect debit and credits.
- £1,251,031 reclassification of Croxley Park for future rental top-up utilised in year, from short term liabilities to earmarked reserves.
- £1,102,228 reclassification of rental deposits for Croxley Park where they are not expected to be repaid within a year, from short term to long term creditors.
- £648,000 through the audit of the pension fund, the pension fund auditor noted there were differences in asset values in the fund. The pension fund auditor noted that once apportioned to Watford Borough Council, this would result in a difference of £648,000 downwards in the asset values disclosed in the IAS19 report.
- £630,850 incorrect valuation of heritage assets, they had been undervalued.
- £190,000 reclassification of Avenue Car Park agreement from short term to long term creditors.
- £137,293 interest charged for Croxley Park headlease overstated.
- £137,000 adjustment to defined pension liability was adjusted to past service cost instead of other operating income.
- £131,407 understatement in land and buildings, there was an arithmetic error in the valuation of a building.
- £110,604 overpayment of the employer pension contribution.
- £105,123 overstatement of short term creditors due to incorrect cut-off of Croxley Park rental receipts.
- £83,000 a minimum revenue provision charge had been omitted from the accounts.

Audit Differences (continued)

Summary of adjusted differences – misstatements in disclosures

We highlight the following misstatements greater than £81,664 which have been corrected by management that were identified during the course of our audit regarding the disclosure notes supporting the accounts:

- Note 17 – Officers' remuneration - An understatement of £7k for honorarium and unsociable hours pay in the salary figure for the Executive Head of Strategy and Communication was identified. We note it here due to the sensitivity of these figures.
- Note 24 – Capital expenditure, financing and commitments - Under capital investments, disclosure of long term investments was understated by £3.617m. Under sources of finance, car parking zone was overstated by £134k.
- Note 34 – Contingent assets – Probable income from WHHT needed to be disclosed as a contingent asset with all possible outcomes.
- Note 36 (b) – Capital adjustment account - The reserves figure was understated by the same £134k mentioned above.
- Note 37 – Financial instruments – Long term investments understated, Watford Health Campus LABV £10.051m. There were also some presentation issues with the financial instruments note.
- Group accounts – Note 2 - A number of errors were identified in the consolidation numbers and disclosures;
    - For Hart Homes (Watford) Ltd, £128k finance costs had not been shown separately and had been included in admin expenses in error.
    - For Watford Health Campus Partnership LLP, revenue was understated by £210k, cost of sales understated by £323k, project under development understated by £134k, short term creditors overstated by £1,338k, long term creditors understated by £10,049k.

In addition there were casting errors, typographical errors and narrative amendments that were required.

The following prior year adjustments (PYA) were identified:

- Leases - Assets relating to leases disposed on or before 2018/19 had been incorrectly included in the 2018/19 operating lease schedule. The overall misstatement is £25.9m (£230k due in 1 year, £894k due in 2-5 years, and £24.8m due over 5 years).
- Rent-to-mortgage arrangements – These properties had previously been classified as long term debtors, the amount recorded being the value of the unpurchased share. This is incorrect as there is no obligation for the tenant to make the purchase. The Council's share for these rent-to-mortgage properties for £1.31m should be reclassified as other land and buildings (OLB) under PPE as they are operational (they provide accommodation for in borough tenants) and the council owns a percentage of the property.
- Property, plant and equipment (PPE) - There have been a number of misstatements in the valuation of land and buildings that requires a PYA:

1. Unallocated capex in land and buildings: we have noted that there are unallocated capital expenditure in land and buildings. This will result in double counting when the land and buildings is next revalued as the property valuers will take into account any additions that have taken place.

2. Lack of indexation adjustment to reflect the year end valuation: Land and buildings under PPE are valued one year in arrears (e.g. assets are valued at 01/04/19 for year end 31/03/20) and therefore requires indexation to reflect the year end valuation. We have also noted that assets not revalued in year have not been adjusted to reflect the year end value.

There is also a misstatement relating to the incorrect classification of infrastructure assets as vehicles, plant and equipment.

At the time of writing we are still to determine the amounts involved.

Audit Differences

Summary of unadjusted differences

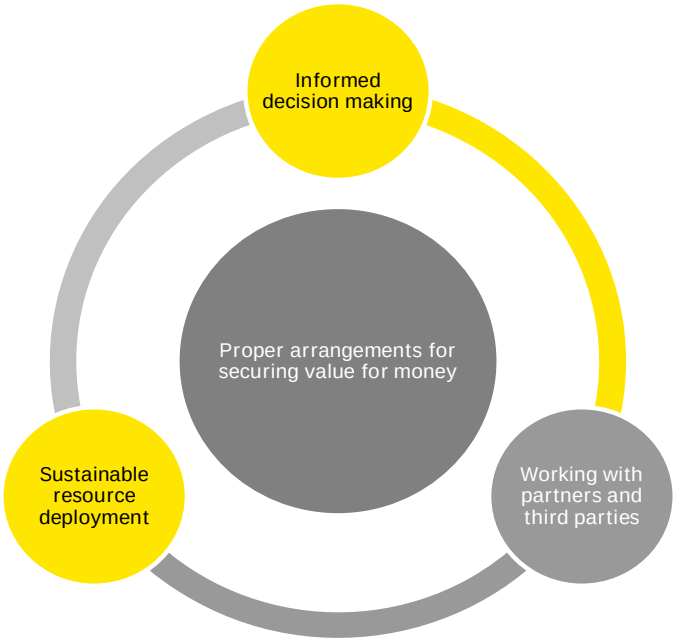
In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and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

Uncorrected misstatements 31 March 2020 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Errors					
Judgemental differences:					
• A payment for £2k was incorrectly recognised in the 2019/20 accounts, but related to 2020/21 expenditure. This item was in one of our representative samples, so we needed to extrapolate the error over the population excluding the key items.	(232)			232	
• A debtor over 1 year old for £16,680 had been written off for 95% of the debt instead of 100%. This item was in one of our representative samples, so we needed to extrapolate the error over the population excluding the key items.	112	(112)			
• Our PPE additions testing identified 3 items totalling £8k that were revenue in nature and should not have been capitalised. These items were in our representative samples, so we needed to extrapolate the errors over the population excluding the key items.	82		(82)		
• Our year end creditor testing identified 5 errors, totalling £9.7k. These items were in our representative samples, so we needed to extrapolate the errors over the population excluding the key items.	(101)			101	
Cumulative effect of uncorrected misstatements	(139)	(112)	(82)	333	

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2020.

05 Value for Money

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 2019/20 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.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified a significant risk around these arrangements. The table below present our findings in response to the risks identified.

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

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Managing cash receipts from Leasehold and Investment Properties	Deploy resources in a sustainable manner	We carried out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources – specifically around management of cash flows and revenue receipts from Croxley Park. On review of the arrangements in place and results to date, we are satisfied there is no evidence to date of the VFM risk around failing to safeguard income receipts from Croxley Park crystallising.

06 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 is 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.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Watford Borough Council’s financial reporting process. At the time of writing this report, there were no matters to report.

07 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.

08 Data Analytics

Data analytics

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 2019/20, 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.

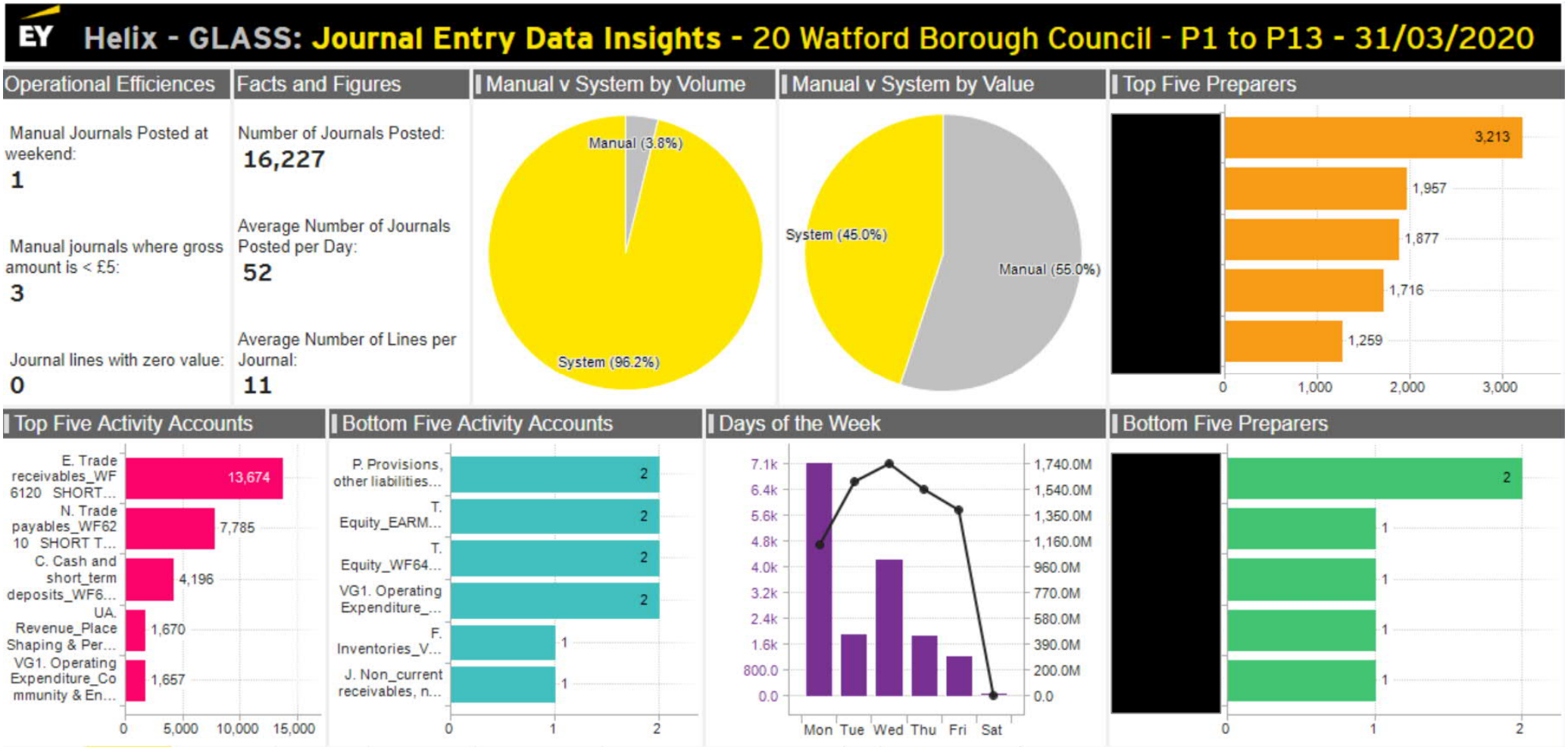
We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

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 2019/20. 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

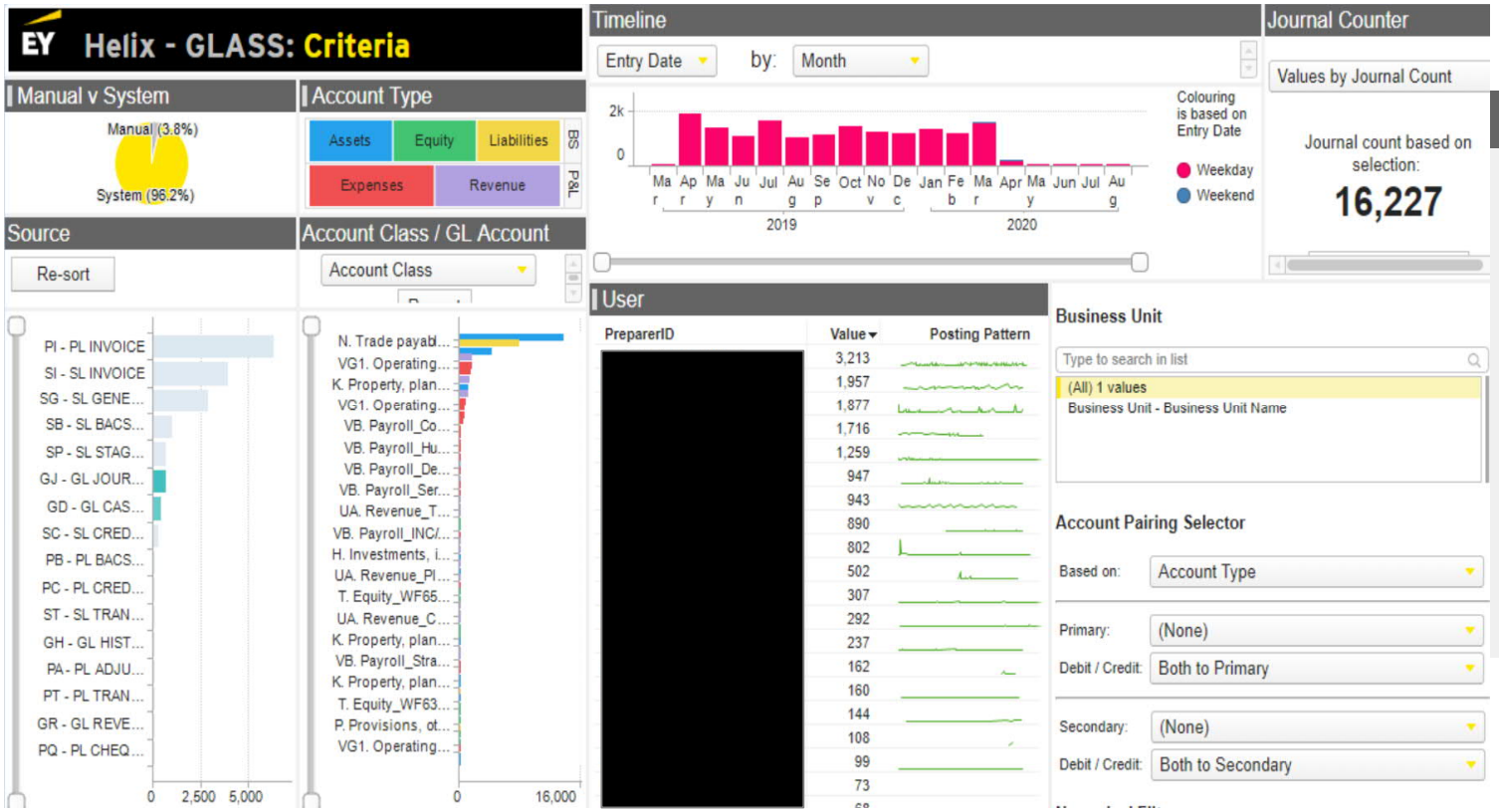
What is the risk?

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 2020



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.

09 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 24th March 2020.

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 29 July 2021.

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

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 2020 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 2020 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.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Overview and Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Overview and Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.
We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

Fees

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2020.
We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have complied with Auditor Guidance Note 1 issued by the NAO.

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work. A breakdown of our fees is shown below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	TBC	40,021	40,020
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk. (Note 1)	TBC	50,730	-
Scale fee variation – Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation and VFM conclusion (Note 2)	TBC	TBC	3,999
Total Audit Fees	Notes 1 & 2	TBC	44,019

Note 1 – The proposed increase reflects the increased risk and complexity facing all public sector bodies, adjusted for our knowledge and risk assessment for this Authority as well as the changes and incremental increase in regulatory standards. The proposed increase in the baseline fee is relatively consistent with other councils of a similar size, risk profile and complexity that EY audits.

Note 2 – The impact of Covid-19 on the audit, the updated requirements on VfM conclusion, group requirements, use of experts for the work on valuation of PPE and the work on going concern will all impact the work that is required to be done. As we near the conclusion of the audit, we will be in a position to quantify the impact of these additional procedures and where we propose a variation to the Authority's scale fee.

On both points, we will continue to discuss and share with you our assessment of the audit fees required to safeguard audit quality and our professional standards.

Fees (continued)

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity.

Summary of key factors
1. Status of sector. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector. • To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit. 2. Audit of estimates. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. • To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists. 3. Regulatory environment. Other pressures come from the changing regulatory landscape and audit market dynamics: • Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors. • This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees (continued)

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

   - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

   - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- In light of recent communication from PSAA, we have quantified the impact in the fee table earlier in this section of the above to be able to accurately re-assess what the baseline fee is for the Authority should be in the current environment. This is currently in review with PSAA Ltd

10 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

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Final review and clearance of points	EY to complete review of all final areas of the work and raise any final queries.	EY and management
Statement of Accounts 2019/20	Review of the final draft set of statements to ensure all amendments have been made correctly. The final draft has been received on the date of this report.	EY and management
Going concern review and disclosures	Management have provided the final updated cash flow on the date of this report so we will update our Going Concern assessment and supporting documentation. EY central review process and finalisation of disclosures and opinion wording is now underway.	EY and management
Management representation letter	Receipt of signed management representation letter	Management and Audit & Governance Committee
Significant Risks and Other Areas of Focus	Completion of the work detailed in the Significant Risks and Other Areas of Focus included within this report	EY, management, internal and external specialists
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern, directors' remuneration and impairment sensitivities] remain to be finalised and audited.

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	• 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

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • 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	Audit results report
Misstatements	• 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	• 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 2020
Fraud	• 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: 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

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • 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
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • 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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report and Audit results report

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• 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	• 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	• 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	• 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	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• 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 Rep Letter

[To be prepared on the entity's letterhead]
[Date]

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

Dear Maria,

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 2020. 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 2020 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 2019/20.

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), 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:

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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. 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 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.

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

4. 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 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised 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. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

Management representation letter (continued)

Management Rep Letter

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

1. 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.

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

3. 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.

4. 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

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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

3. 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: [list date].

4. 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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter (continued)

Management Rep Letter

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 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.

7. From 30 July 2019, the date of our last management representation letter, through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. 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 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 to litigation and claims, both actual and contingent, and have disclosed in Note 36 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, 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 Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note 38 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

Management representation letter (continued)

Management Rep Letter

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 property 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.

I. Retirement benefits

1. 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,

_____
(Director of Finance)

_____
(Chair of the Audit Committee)

Appendix E

Regulatory update

There have been a number of regulatory developments for 2020/21. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Watford Borough Council
Code of Audit Practice 2020	• The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	• The NAO has updated the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.
Going Concern - ISA (UK) 570 (Revised September 2019)	• The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. • This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	• Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. • Further updates will be provided when possible.
Independence	• The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	• We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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