

# **Watford Borough Council Draft Audit results report**

Year ended 31 March 2021

05 September 2023

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo area.

Building a better  
working world

05 September 2023



Watford Borough Council  
Town Hall  
Watford  
WD17 3EX

Dear Audit Committee Members

2020-21 Audit results report

We are pleased to attach our [updated](#) audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for [14 September 2023](#) on further progress to that date and explain the remaining steps to the issue of our final opinion.

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. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on [14 September 2023](#).

Yours faithfully

Maria Grindley

Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



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

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

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





# 01 Executive summary

# Executive summary

## Scope update

### Changes in materiality

In our Audit Committee Planning Report, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We updated our planning materiality assessment using the revised draft 20/21 financial statements received on 27 July 2023 and have also reconsidered our risk assessment. Based on our planning materiality measure of 2% of gross expenditure on provision of services and performance materiality at 50% of planning materiality:

Materiality	Audit Plan	Final
Planning	£1.732m	£1.869m
Performance	£0.866m	£0.934m
Reporting	£87k	£93k

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus)(Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

**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 impact of the Covid-19 pandemic increased the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous risk assessed consultation process for all auditor reports to ensure that they include the appropriate narrative.

### Triennial Valuation

In March 2023, the triennial valuation as at March 2022 for Hertfordshire County Council Pension Fund was finalised. This counts as new information available for any open accounts and therefore following the receipt of the final triennial valuation for 2022, account preparers need to consider whether there is a material difference to the information used in the roll forward and whether amendments need to be made to the 2020/21 accounts under Section 3.8 of the CIPFA Code of Practice. Audit teams were also be required to consider this information when reviewing their testing of those judgments and estimates. We have provided an update at section 2.

# Executive summary

## Status of the audit

Our audit work in respect of the Council opinion is well progressed.

We have completed the majority of our testing based on the first of the 20/21 draft financial statements. We are currently updating our risk assessment and procedures based on the revised draft financial statements received on 27 July 2023.

There have been delays in getting the required information to us mainly due to management's capacity as same individuals are working on risk and complex areas. Whilst we recognise that there are good reasons for this we will include this in our post-audit wash up discussion with officers to ensure we can have a smoother audit process in the coming year.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

## Auditor responsibilities under the new Code of Audit Practice 2020

Our audit work in respect of the Council opinion is well progressed.

We have completed the majority of our testing based on the first of the 20/21 draft financial statements. We are currently updating our risk assessment and procedures based on the revised draft financial statements received on 27 July 2023.

There have been delays in getting the required information to us mainly due to management's capacity as same individuals are working on risk and complex areas. Whilst we recognise that there are good reasons for this we will include this in our post-audit wash up discussion with officers to ensure we can have a smoother audit process in the coming year.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

## Status of the audit - Value for Money

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21.

We are currently completing our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements.

## Executive summary

### Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

### Status of the audit - Value for Money

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21.

We are currently completing our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements.

## Executive summary

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### Audit differences

We identified an uncorrected misstatement greater than our reporting threshold of £866k. This relates to the decrease in investment in Watford Health Campus amounting to £1,749k. We will update the audit differences based on the revised 20/21 draft financial statements as we complete the outstanding work.

There have been a number of presentational and disclosure amendments which we have identified and to be corrected by management.

See Section 4 of this report for further details of the mis-statements.

### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council, subject to final review. As at writing, we have no issues to report.

[We are normally required to perform the procedures required by the National Audit Office \(NAO\) on the Whole of Government Accounts submission. Given the delay in the certification of the audit we may not need to complete the WGA procedures for 2020/21 as the national submission deadline has now passed.](#)

We have no other matters to report.



# Executive summary

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Watford Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report and summarised below.

*Audit findings and status: Fraud/Significant risk: Incorrect Accounting for Manual Accruals - Risk of fraud in expenditure recognition*

- ▶ To date we have identified no evidence of incorrect accounting for manual accruals. Our work on journal entry testing and accounting estimates are still on-going at the date of writing this report.
- ▶ Our work on manual accruals testing is substantially complete with one outstanding evidence from management and subject to review. We have identified a reclassification error between short-term to long-term liabilities amounting to £180k.

*Audit findings and status: Fraud risk: Misstatements due to fraud or error*

- ▶ We have not identified any issues to date, but work is ongoing at the time of writing this report.

*Audit findings and status: Fraud/Significant risk: Incorrect accounting for income from investment and leasehold properties - risk of fraud in revenue and expenditure recognition*

- ▶ This work is complete and subject to review. As at the date of this report we have found no instances of incorrect accounting for income from investment and leasehold properties.

*Audit findings and status: Fraud risk: Inappropriate capitalisation of revenue expenditure*

- ▶ [We are currently updating our procedures based on the revised PPE and REFCUS working papers provided by the management.](#)

*Audit findings and status: Significant risk: Valuation of Other Land and Buildings in Plant Property and Equipment, Investment Properties, and surplus assets*

- ▶ Our work on this area is substantially complete subject to review and updates based on the revised 20/21 draft financial statements.

*Audit findings and status: Inherent risk: Valuation of Pension Fund Assets and Liabilities*

- ▶ This work is complete and subject to review. We identified a misstatement relating to increase of pension liability from 20/21 Hertfordshire pension fund audit amounting to £271k.

*Audit findings and status: Inherent risk: Accounting for Covid-19 related Government Grants*

- ▶ This work is complete and subject to review. We have not identified any misstatements in our testing.

# Executive summary

## Areas of audit focus

*Audit findings and status: Inherent risk: Going Concern compliance with ISA570*

- ▶ We have reviewed the going concern assessment prepared by management for Watford Borough Council up to March 2024 and we consider the Council to be able to continue as a going concern to that date. However the going concern assessment is required to cover at least 12 months after the audit signing date, which is expected to be [31 October 2023](#). The going concern assessment will therefore have to be extended by management for our review.

*Audit findings and status: Inherent risk: Incorrect classification of fixed assets (L&B, IP and surplus assets)*

- ▶ [We are waiting for the reconciliation between the fixed asset register and Note 21 Property, Plant and Equipment per revised 20/21 draft financial statements to complete our testing.](#)

*Audit findings and status: Inherent risk: lack of prudence in compliance in estimation of Minimum Revenue Provision (MRP)*

- MRP is charged one year in arrears. The MRP charged in 20/21 is based on unfunded capital expenditure in 2019-20 and before. Due to the delay in completion of the 2019-20 audit this area of audit is to be started.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues;
- ▶ You concur with the resolution of the issue; and
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised.

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

## Control observations

We have not identified any control deficiencies as at writing of the report.

## Independence

In our Audit Plan presented at the 28 July 2022 Audit Committee meeting we did not identify any independence issues.

Please refer to Section 9 for our update on Independence.



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## Areas of audit focus



## Areas of audit focus

### Significant risk

#### Incorrect accounting for manual accruals - risk of fraud in 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 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?

To date we have identified no evidence of incorrect accounting for manual accruals. Our work on journal entry testing and accounting estimates are still ongoing at the date of writing this report.

**Our work on manual accruals testing is substantially complete and subject to review.** We have identified a reclassification error between short-term to long-term liabilities amounting to £180k.



## Areas of audit focus

### Significant risk (cont'd)

#### Misstatements due to fraud or error\*

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

##### What judgements are we focused on?

Correctness and appropriateness of journals recorded in the general ledger and other adjustments including accounting estimates.

##### What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including:
  - Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
  - Assessing accounting estimates for evidence of management bias, and
  - Evaluating the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

##### What are our conclusions?

To date we have identified no evidence of misstatement due to fraud or error. Our work on journal entry testing and accounting estimates are still on-going at the date of writing this report.



## Areas of audit focus

### Significant risk (cont'd)

**Incorrect accounting for 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?

We focused on allocating income from investment and leasehold properties to correct accounting periods

#### What did we do?

We reviewed a sample of investment property and leasehold property income at a lower testing threshold to confirm it is appropriately accounted for,

#### What are our conclusions?

We have undertaken sample testing on investment property and leasehold property income using a lower testing threshold. We have not identified any issues to date, but work is subject to review.





## Areas of audit focus

### Significant risk (cont'd)

#### Inappropriate capitalisation of revenue expenditure\*

##### 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.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

##### What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including consideration of REFCUS.

##### What did we do?

We have:

- ▶ Tested PPE additions, and REFCUS, to ensure that the expenditure incurred and capitalised is clearly capital in nature or appropriate to be treated as REFCUS.
- ▶ Identified and understood the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries more generally for evidence of management bias and evaluate for business rationale.

##### What are our conclusions?

We focused our testing on property, plant and equipment capital additions and also Revenue Expenditure Financed from Capital Under Statute (REFCUS) capital additions.

We are currently updating our testing of capital additions and REFCUS based on the revised working papers provided by the management. As at the date of this report we have found no instances of inappropriate capitalisation of revenue expenditure.



## Areas of audit focus

### Significant risk (cont'd)

#### Valuation of land and buildings in Plant, Property and Equipment, Investment Property and Surplus Assets

##### What is the risk?

The fair value of land and buildings, investment properties, and surplus assets, represent a significant balance in the Council's accounts and is subject to valuation changes and impairment reviews. In addition land and buildings are also subject to depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

As one of the largest accounting estimates on the balance sheet and one dependent on a high degree of subjectivity, and also in light of a number of material misstatements relating to property valuations identified in the PY19-20 audit, we have continued to associate a significant risk to the valuation of land & buildings in the 2020/21 audit.

##### What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- harder to value assets - such as assets which are valued on a depreciated replacement cost basis;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

##### What are our conclusions?

We have received the draft memo from EY Real Estate specialists and are satisfied that the assets reviewed are materially correct. We note however that land and buildings in plant, property and equipment are valued one year in arrears, and we will perform additional work to confirm that PPE valuations are correctly indexed to reflect the year-end 31 March 2021 date in the revised 20/21 draft financial statements.

##### 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;
- Reviewed that procedures are applied by the Council to any roll forward valuations from 01 April 2020 to the year end 31 March 2021 for operational PPE;
- 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 2020/21 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.



## Areas of audit focus

### Other areas of audit focus

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

What is the risk/area of focus?	What did we do?
<p><b><u>Valuation of defined benefit pension scheme</u></b></p> <p>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.</p> <p>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 2021 the net liability was valued at <a href="#">£55.079m</a>.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used; and</li> <li>▶ Reviewed and tested the accounting entries and disclosures made within Watford Borough Council's financial statements in relation to IAS19.</li> <li>▶ <a href="#">Considered the results of the 2022 Triennial Valuation Report and assessed any impact it has in the pension liability balance.</a></li> </ul> <p>We have completed our work in this area and identified a misstatement relating to understatement of pension liability from 20/21 Hertfordshire pension fund audit amounting to £271k. This work is under review.</p>
<p><b><u>Accounting for Covid-19 related grant funding</u></b></p> <p>The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.</p>	<p>We considered the Council's judgement on material grants received in relation to whether it is acting as:</p> <ul style="list-style-type: none"> <li>▶ An Agent, where it has determined that it is acting as an intermediary; or</li> <li>▶ A Principal, where the Council has determined that it is acting on its own behalf.</li> </ul> <p>We have completed our work in this area and have no matters to raise. This work is under review.</p>



## Areas of audit focus

### Other areas of audit focus (continued)

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

#### What is the risk/area of focus?

##### Going Concern Compliance with ISA 570

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive.

The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

#### What did we do?

We have:

- ▶ Challenged management's identification of events or conditions impacting going concern.
- ▶ Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- ▶ Reviewed the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- ▶ Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- ▶ Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

We have reviewed the going concern assessment prepared by management for Watford Borough Council up to March 2024 and we consider the Council to be able to continue as a going concern to that date. However the going concern assessment is required to cover at least 12 months after the audit signing date, which is expected to be **31 October 2023**. The going concern assessment will therefore have to be extended by management for our review.

#### Incorrect classification of fixed assets (L&B, IP and surplus assets)

In the PY19/20 audit we have noted a number of misclassifications of assets between L&B subclasses, and also between L&B, IP, and surplus assets. Therefore in the CY20/21 audit there is an inherent risk for the misclassification of fixed assets.

As at the date of this report our work is still in progress in respect of the following:

- ▶ perform a substantive approach on L&B (PPE), IP and surplus asset, including test for existence, in-year additions and disposals, and also valuations of these assets. As part of our work we also reviewed the correct classification of these assets into L&B, IP, and surplus assets.
- ▶ perform a high level review of asset names within the fixed asset register to test for the reasonableness of their classification into the various asset subclasses.

We are waiting for the reconciliation between the fixed asset register and Note 21 Property, Plant and Equipment per revised 20/21 draft financial statements to complete our testing.



## Areas of audit focus

### Other areas of audit focus (continued)

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

#### What is the risk/area of focus?

##### Lack of prudence in estimation of Minimum Revenue Provision (MRP)

In the PY 19/20 audit, we have noted that management has not included MRP as part of its capital financing requirements (CFR) calculations. We have also 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.

Management has later agreed to amend the accounts to include a provision of £83,000; while we accept that the Council has complied with its statutory duty to make a revenue provision it considers to be prudent, in our view the MRP is aggressive as it would take the Council 384 years to cover its capital financing requirement of £32.4 million at that level of provision. In the PY we have therefore recommend the Council reconsiders whether its current MRP policy leads to prudent provision.

In addition to the issues identified in the PY, in the CY there is additional CFR for the material new Croxley Park finance lease that is likely to have a large impact on MRP calculations. In the CY 20/21 audit therefore included management's estimation of the MRP as an area of audit focus to confirm that a prudent level of MRP is provided for.

#### What did we do?

MRP is charged one year in arrears. The MRP charged in 20/21 is based on unfunded capital expenditure in 2019-20 and before. Due to the delay in completion of the 2019-20 audit this area of audit is to be started.

As at the date of this report our work on this area is to be started in respect of the following:

- ▶ we will review the breakdown of the Council's capital financing requirement on an asset by asset basis.
- ▶ we will then form our own estimate of the MRP in accordance to the Prudential Code and compare this against the Council's own estimate.
- ▶ we will also involve our EY technical expert to assist with this MRP calculation.



## 03 Audit report





# Audit report

## Draft audit report 20-21

Draft audit report - To follow on completion of the audit

### Our opinion on the financial statements

▸ To follow

▸ To follow



# 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/unadjusted differences

We highlight the misstatement greater than our reporting thresholds of £866k that have been identified during the course of our audit. We will provide an update at the Audit Committee meeting on and a final position at the conclusion of the audit.

#### Uncorrected Mis-Statements:

Investments in Watford Health Campus should have been reduced by £1,749k due to the repayment of principal during the year.




There have been a number of presentational and disclosure amendments which we have identified and will be corrected by management.



# 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 this 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 2021 (£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)
Error					
Known differences:					
<ul style="list-style-type: none"> <li>▸ Decrease in investments in Watford Health Campus due to the repayment of principal during the year</li> </ul>	1,749		(1,749)		
Balance sheet totals	11,004	125,675	548,055	(45,813)	(303,574)
Income effect of uncorrected misstatements (before tax)	1,749				
Cumulative effect of uncorrected misstatements before turnaround effect	1,749				
Turnaround effect of PY uncorrected misstatement - NB these are below our tolerable error so not reported here.	-				
Cumulative effect of uncorrected misstatements, after turnaround effect	1,749				





05

## Value for money



# Value for money

## The Council's responsibilities for value for money (VFM)

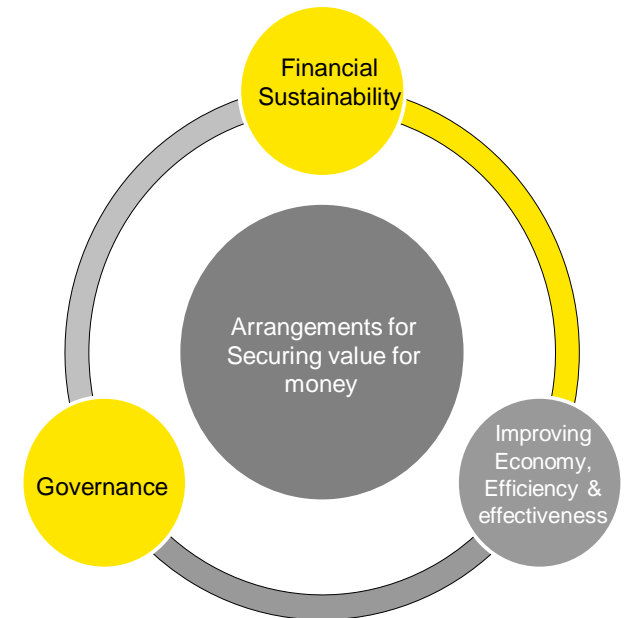
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21.

We are currently completing our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements.







## 06 Other reporting issues

## 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 Statement of Accounts 2020/21 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 Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council, subject to review. As at writing, we have no issues to 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.

Our work on procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission is subject to review. As at writing, we have no issues to report.

We have no other matters to report as at writing of the report. [We are yet to update our work on the WGA based on the revised draft financial statements.](#)

## Other reporting issues

# Other reporting issues

### 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.

### 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. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

As at the date of this report we have nothing that we need to bring to the attention of the Audit Committee in respect of Other Matters.





07

## Assessment of the control environment



# Assessment of Control Environment

## Financial controls

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.

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 including group-wide or at components.

We have not identified any control deficiencies as at writing of the report.





08

## Data analytics





## Management Override of Controls

### 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?

We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted around the year-end, those relating to overstatement of payable accruals at yearend, those relating to income recognition from investment and leasehold properties and those relating to inappropriate capitalisation of revenue expenditure.

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.

### 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?

At the date of writing this report our journal entry testing is ongoing; we will conclude on the testing and report any material findings.



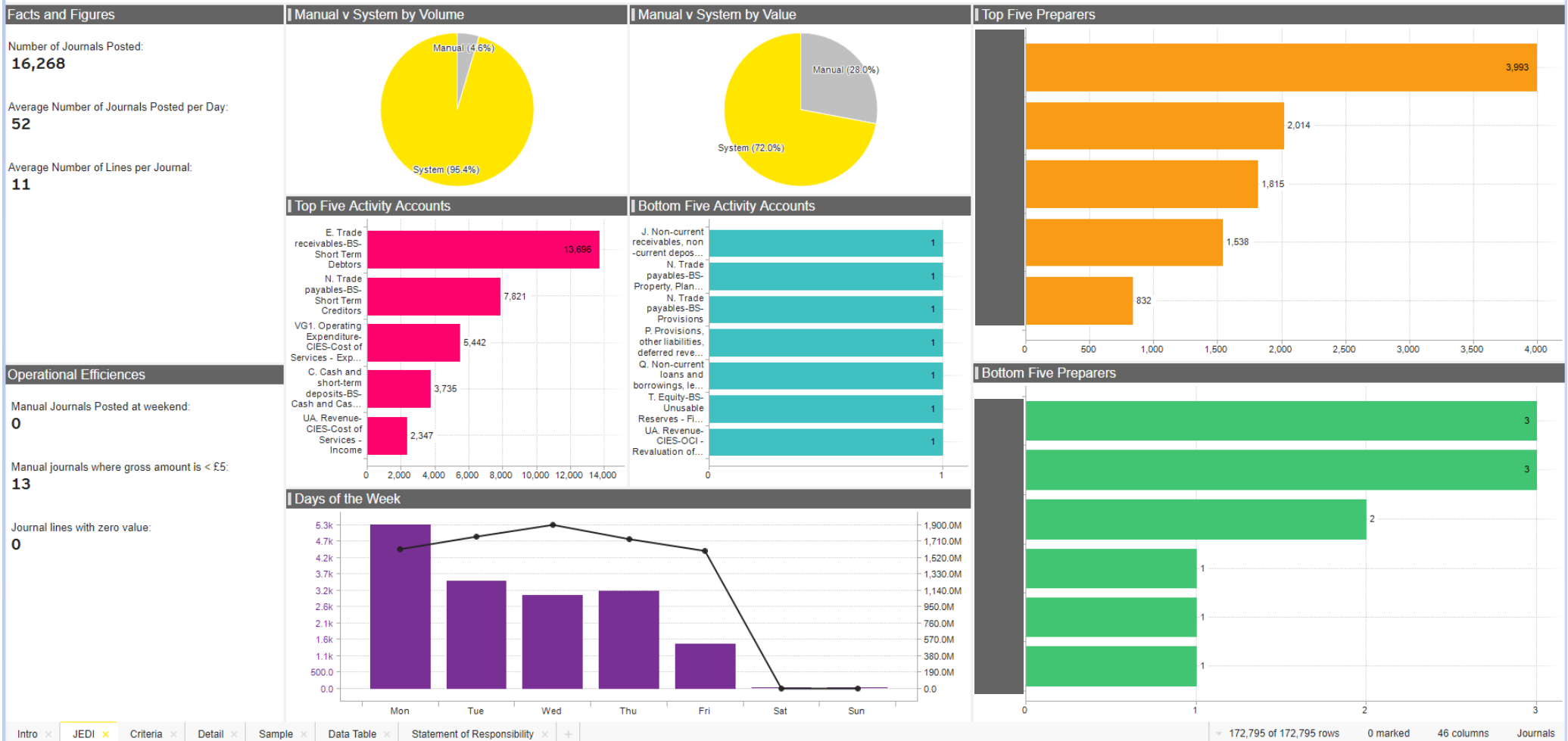
# Data Analytics

## Journal Entry Data Insights

Watford Borough Council 31 March 2021

The graphic outlined below summarises the journal population for 2020/21. We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions included in our data subset.

### EY Helix - GLASS: Journal Entry Data Insights - Watford Borough Council - 31/03/2021





09

Independence

## Relationships, services and related threats and safeguards

---

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, 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 1 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 next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. Further detail of all fees has been provided to the Audit Committee.

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.

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 28 July 2022.

We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on [14 September 2023](#).

We confirm we do not plan to undertake non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd . We will apply the necessary safeguards in our completion of this work should we be required to complete any.

## Confirmation and analysis of Audit fees

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Total Audit Fee - Code work	TBC	71,440	66,355
Housing Benefits	TBC	TBC	TBC
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)  Scale fee variation - Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation, additional work on grants and VFM conclusion (Note 2)	TBC	TBC	119,442
<b>Total Audit Fees</b>	<b>Notes 1 &amp; 2</b>	<b>TBC</b>	<b>185,797</b>

All fees exclude VAT

**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 additional work on grants 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. We note the significant additional procedures as a result of the incorrect treatment of Grants and the subsequent materiality re-assessment and additional testing required.

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.

All fees are subject to final review and agreement by PSAA Ltd

## Other communications

### EY Transparency Report 2022

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 2022:

[EY UK 2022 Transparency Report | EY UK](#)






A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

# 10 Appendices





## Appendix A

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. 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 presented at the 28 July 2022 Audit Committee meeting
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report presented at the 28 July 2022 Audit Committee meeting
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit planning report presented at the 28 July 2022 Audit Committee meeting

# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	Draft Audit results report presented at the 26 July 2023 <a href="#">and 14 September 2023</a> Audit Committee meeting
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Draft Audit results report presented at the 26 July 2023 <a href="#">and 14 September 2023</a> Audit Committee meeting
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Draft Audit results report presented at the 26 July 2023 <a href="#">and 14 September 2023</a> Audit Committee meeting

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Draft Audit results report presented at the 26 July 2023 and <a href="#">14 September 2023</a> Audit Committee meeting
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Draft Audit results report presented at the 26 July 2023 and <a href="#">14 September 2023</a> Audit Committee meeting
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Draft Audit results report presented at the 26 July 2023 and <a href="#">14 September 2023</a> Audit Committee meeting

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Draft Audit results report presented at the 26 July 2023 and 14 September 2023 Audit Committee meeting
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	Draft Audit results report presented at the 26 July 2023 and 14 September 2023 Audit Committee meeting



# Appendix A




		Our Reporting to you	
Required communications	What is reported?	When and where	
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Draft Audit results report presented at the 26 July 2023 <a href="#">and 14 September 2023</a> Audit Committee meeting	
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Draft Audit results report presented at the 26 July 2023 <a href="#">and 14 September 2023</a> Audit Committee meeting	
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Draft Audit results report presented at the 26 July 2023 <a href="#">and 14 September 2023</a> Audit Committee meeting	
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Draft Audit results report presented at the 26 July 2023 <a href="#">and 14 September 2023</a> Audit Committee meeting	
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Draft Audit results report presented at the 26 July 2023 <a href="#">and 14 September 2023</a> Audit Committee meeting	
VFM Commentary	<ul style="list-style-type: none"> <li>▶ Report the findings from our VFM review in the Auditor's Annual Report</li> </ul>	Auditor's Annual Report presented within 3 months from the date of the audit opinion	



## 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 
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
Update of Audit Procedures	Update of procedures based on the revised draft 20/21 financial statements.	EY and management
Final Statement of Accounts 20/21	Review of the Annual Report and associated support for final accounts E.g. Incorporation of EY review comments on disclosure notes	EY and management
Value for Money (VFM)	EY to complete risk assessment work.	EY
Group Reporting from component auditors	Group consolidation review and casting of final accounts	EY
General review of completed tasks	EY to complete various levels of review on completed work	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit Committee
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 remain to be finalised and audited.

## Draft Management Representation Letter

### Draft Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Maria Grindley  
Ernst & Young  
R+ Building  
2 Blagrove Street  
Reading, RG1 1AZ

This letter of representations is provided in connection with your audit of the Council financial statements of Watford Borough Council ("the Council") for the year ended 31 March 2021. 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 Council financial statements give a true and fair view of the Council financial position of Watford Borough Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Council the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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

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

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the Council financial statements. We believe the Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) and are free of material misstatements, including omissions. We have approved the Council financial statements.
3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) 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.

## Management representation letter

### Draft Management Rep Letter

#### A. Financial Statements and Financial Records (cont'd)

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 Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].
6. We confirm the Council does not have securities (debt or equity) listed on a recognised exchange.

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

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 Council 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 Council 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 including Audit Committee, Council and Policy Committee, and (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 year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Council financial statements.

## Management representation letter

### Management Rep Letter (cont.)

#### C. Information Provided and Completeness of Information and Transactions (cont'd)

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
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 Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter dated XXX 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 (1) such unauthorised access to our information technology systems is reasonably likely to have a material impact on the Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

#### 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 Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent.

#### E. Going Concern

1. Note 1 to the Council 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.

#### F. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the Council financial statements or notes thereto.

#### G. 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.

#### H. Ownership of Assets

1. Except for assets capitalised under finance leases the Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheets.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the Council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

## Management representation letter

### Management Rep Letter (cont.)

#### H. Ownership of Assets (cont'd)

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

#### I. Reserves

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

#### J. Use of the Work of a Specialist - NNDR Appeals Provision, Pensions, and Property, Plant and Equipment

1. We agree with the findings of the specialists that we engaged to evaluate the valuation assertion and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Council 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.

#### L. Estimates - NNDR Appeals Provision, Pensions, and Property, Plant and Equipment

1. We confirm that the significant judgments made in making the estimates listed above have taken into account all relevant information and the effects of the COVID-19 pandemic on these estimates of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates listed above.
3. We confirm that the significant assumptions used in making the estimates listed above appropriately reflect our intent and ability to carry out ongoing activities on behalf of the entity.

4. We confirm that the disclosures made in the Council entity financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the above estimates, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) .
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates detailed above.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the parent entity financial statements, including due to the COVID-19 pandemic.

#### M. 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,

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(Director of Finance)

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(Chair of the Audit Committee)

## Appendix D

### Progress report on implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2024. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2024/25 Code. The following table summarises the actions necessary to implement the adoption of IFRS 16 from 1 April 2024:

IFRS 16 theme	Summary of key measures  
Data collection	Management should have: <ul style="list-style-type: none"> <li>▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>▶ Classified all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>▶ Identified, collected, logged and checked all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	The council need to agree on certain policy choices. In particular: <ul style="list-style-type: none"> <li>▶ Will [the council adopt a portfolio approach?</li> <li>▶ Has the low value threshold been set and agreed with auditors?</li> <li>▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components?</li> <li>▶ What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.



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