

24 August 2020

Christopher Leslie
Section 151 Officer
Maldon District Council
Council Offices
Princes Road
Maldon
Essex
CM9 5DL

Our Ref: CW/AS/2020

Dear Chris,

Audit fee for 2019/20 & 2020/21

Further to our meeting on 31 July I have reflected on comments and challenges made by Cllrs Bamford and Jarvis on additional fees for the 2019/20 audit and I will be restricting my request strictly to costs incurred due to additional work that was required in response to the impact of Covid 19 on my audit along with the additional time required to investigate and resolve the valuation issues. A summary of the additional work required in both these areas is included in my Report to the Performance, Governance and Audit Committee on the audit which will be presented at the next meeting. The additional costs in these areas are summarised below:

	£ (excluding VAT)
2019/20 fee	
Original scale fee for 2019/20	37,942
Additional non-recurring items:	
Impact of Covid 19	7,700
Impact of review and resolution of asset valuation errors	9,120
Total proposed 2019/20 fee	54,762

For completeness I have also included below my fee proposal for the 2020/21 audit. As discussed previously, a letter was sent by Public Sector Audit Appointments Ltd (PSAA) on 30 April 2020 to all section 151 officers and Audit Committee Chairs noting that the original scale fees were likely to require amendment and those amendments are to initially be discussed and agreed between auditors and authorities. The letter sets out a summary of some of the factors that are impacting on the cost of these audits and a key extract from that letter is:

"... However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations."

Having completed two years of our contract for the audit of the authority we have developed our understanding of the council and we have a better basis upon which to determine the costs of delivering the audit for 2020/21.



In the table below, we have set out our proposed fees for 2020/21, together with a summary of the factors that have had an impact on these fees. Once you have had an opportunity to review the details in this letter, please could we arrange to meet again with Cllrs Bamford and Jarvis to discuss them. Following our meeting we would seek formal approval, or further comments, from the authority on the level of fees for 20-19/20 and 2020/21. Following this response, we will proceed to seek approval from PSAA.

Council proposed audit fees⁶

	£ (excluding VAT)
2020/21 fee	
Original scale fee for 2020/21	37,942
Change to scale fee to reflect increased audit costs and nature of the council ¹	32,938
Change in scope of value for money work ²	10,000
Expenses ³	5,000
Proposed scale fee for 2020/21	85,880
Additional non-recurring items:	
Estimated impact of Covid 19 ⁴	7,700
Impact of IFRS 16 transition ⁵	6,000
Total proposed 2020/21 fee	99,580

Notes

- 1 A number of factors have contributed to an increase in audit costs since the contract was tendered in 2017, including:
 - The scale fees as currently set are based on a number of very dated assumptions that do not appropriately take into account the size and complexity of Council audits or the in the current environment. As referenced in the letter from PSAA, we are now required to do substantially more work in order to respond to changes in requirements from stakeholders and regulators. We have used knowledge gained about of the council and the finance team from auditing the 2018/19 financial statements to calculate the base increase needed in the 2018/19 audit fee
 - We are now required to use specialists to a far greater degree to support our audit work and in particular where specialist input relates to a significant audit or VFM risk. Where specialists are required, for example an actuarial specialist on the pension scheme reports and a property expert for valuation of assets, this is included here. This has been calculated on a specialist hours multiplied by agreed rate basis specific to your audit context.
 - Changes to our quality control and assurance arrangements.

We have therefore taken into consideration the actual time required to complete the audit in 2018/19 and 2019/20 as the basis of the change. This time, and the associated costs, accurately reflect the complexity and scale of the council.
- 2 Following the National Audit Office's release of Auditor Guidance Note 03 in April 2020, the requirements of auditors with respect to authorities' value for money arrangements have changed. The new requirements apply for 2020/21 onwards. The changes to these requirements are significant, and include changes to the scope of our work and the way in which our work is reported (including the introduction of a new narrative report).
- 3 The current scale fees do not appropriately take account of the different level of expenses required for some audits. Expenses are based on travel and accommodation costs incurred in the 2018/19 audit. This is an estimate and we will only charge actual expenses incurred.
- 4 Covid 19 impacts upon audit costs in a number of ways including changes in the risk profile of audits and the audit quality control arrangements we put in place; changes in the timetable for authorities' preparation for the audit and responsiveness to audit queries; and changes to the scope of our work and specific audit procedures that we are required to perform. We also note that, in 2020/21, the authorities' arrangements with respect to Covid 19 will be in the scope of our review under our value for money responsibilities. We have included an estimate of the additional costs in respect of these matters and we will reassess the impact on 2020/21 closer to the time of the audit.
- 5 IFRS 16 is a new accounting standard relating to leases. Whilst the standard is effective for 2021/22, disclosures of the impact of the standard on opening balances are required in 2020/21. Additional audit procedures are required in respect of the implementation of this new accounting standard.
- 6 Our fee estimates are provided on the basis of the assumptions set out in the appendix to this letter.

Yours faithfully

Deloitte LLP

Deloitte LLP

(Engagement Lead contact: Craig Wisdom)



Appendix

Fee assumptions

Our fee estimates and our ability to meet your timetable are based on the authority meeting its responsibility to provide draft statement of accounts, detailed audit schedules and other specified information (the 'Schedules') in accordance with our agreed timetable. To the extent that the authority does not provide the Schedules within the agreed timetable, or the schedules are not free from non-trivial misstatements, we will seek additional fees from the authority, for additional time incurred, in accordance with our contract with PSAA. This includes situations where:

- We change the timing of our work from the agreed timetable at your request. Changes to the timing of the engagement usually require reassignment of our personnel in the performance of services. Costs may include the cost of individuals originally booked to work on your audit(s) who cannot be booked to other engagements, or replacement staff available at the new agreed time being of a different grade or less familiar with the audit.
- All requested information is not (a) provided by you on the date requested, (b) completed in a format acceptable to us, (c) mathematically correct, or (d) in agreement with the appropriate accounting records (e.g., general ledger accounts, completed trial balance).
- There are delays in responding to our requests for information, such as reconciling variances, providing requested supporting documentation (e.g., invoices, contracts, and other documents), or responding to our inquiries of management.
- There is a deterioration in the quality of the accounting records during the current period in comparison with the prior period.
- A completed trial balance, referenced to supporting schedules and financial statements, is not provided to the agreed timescale.
- Draft financial statements, free from misstatements other than those which are clearly trivial, with appropriate supporting documentation are not prepared accurately and on a timely basis by you.
- Electronic files in an appropriate format and containing the information requested are not provided by you by the date requested for our use in performing file interrogation.
- Deficiencies or weaknesses in the design or operating effectiveness of the internal control over financial reporting are identified during our audit that result in an expansion of our audit procedures on the related financial statement accounts.
- There are proposed adjustments identified during our engagement.

Changes from the prior year which were not discussed with us in determining our original fee, which may include:

- Changes in accounting policies or practices from those used in prior years.
- Unusual events or transactions.
- Changes in your financial reporting process or information technology systems.
- Changes in your accounting personnel, their responsibilities, or their availability.
- Changes in applicable financial reporting standards, auditing standards and/or laws and regulations which could not reasonably have been known to us at the time we agreed our original fee.
- Changes in scope caused by events that are beyond our control.