



## **Annual Audit Letter on the 2019/20 External Audit Maldon District Council**

January 2021

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# 1. Letter to Members

The Members  
Maldon District Council  
Council Offices  
Princes Road  
Maldon  
Essex  
CM9 5DL

21 January 2021

Dear Members

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2020.

Although this letter is addressed to the Members of Maldon District Council ("the Authority"), it is also intended to communicate the significant issues we have identified in an accessible style to key external stakeholders including members of the public. The letter will be published on the Public Sector Audit Appointments Ltd (PSAA) website at [www.psaa.co.uk](http://www.psaa.co.uk) and on the Authority's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from [www.psaa.co.uk](http://www.psaa.co.uk).

This letter has been discussed and agreed with the Director of Resources. A copy of the letter will be provided to all Members.

This is our second year as the external auditor of the Authority following the transition to the PSAA contract in 2019/20.

Yours faithfully,

A handwritten signature in purple ink that reads "Deloitte LLP".

Craig Wisdom  
Audit Partner  
for and on behalf of Deloitte LLP  
St Albans, United Kingdom

## 2. Key Messages

### Statement of Accounts

#### Unqualified opinion issued on 26 November 2020

In 2019/20 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards ("IFRS") as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and other relevant legislation.

The initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard which has led to significant delays in the issue of our audit opinion.

We issued our audit opinion on the financial statements on 26 November 2020. Our opinion was not qualified.

Materiality for the Authority's accounts was set at £620k.

### Value for Money ("VfM") conclusion

#### Unqualified conclusion issued on 26 November 2020

We are required to base our statutory VfM conclusion on the criteria specified by the National Audit Office. This is an evaluation of whether the Authority has in place proper arrangements to ensure properly informed decisions were taken and the Authority deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We issued an unqualified VfM conclusion on 26 November 2020.

### Audit findings

#### We identified significant weaknesses in internal control or other findings

International Standards on Auditing (UK) require us to communicate in writing to those charged with governance the significant findings from our audit. There were a number of significant findings that we brought to the attention of the Audit Committee.

### Independence and Objectivity

#### Independence and objectivity

An analysis of audit fees for the year ended 31 March 2020 is shown in Section 6 of this letter.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

### 3. Responsibilities and Scope

#### Responsibilities of the Authority and Auditors

The Authority is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based on IFRS and other relevant legislation.

We are appointed as the Authority's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England where they have opted into this programme.

As the Authority's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- auditing the Authority's accounts; and
- evaluating whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money ("VFM") conclusion).

These responsibilities are set out in greater detail in the Statement of Responsibilities of Auditors and Audited Bodies. This document can be accessed here: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>.

#### The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based on IFRS and other relevant legislation.

We conducted our work on the 2019/20 VFM conclusion in line with guidance issued by the National Audit Office in April 2020.

## 4. Audit of the Accounts

Statement of Accounts	
<b>Unqualified opinion issued on 26 November 2020</b>	<p>We issued an unqualified opinion on the Authority's 2019/20 accounts on 26 November 2020.</p> <p>Before we give our opinion on the accounts, we are required to report to those charged with governance (here the Audit Committee) any significant matters arising from the audit. To address this requirement, a detailed report was issued on 09 September 2020. This was discussed with the members of the Audit Committee on 24 September 2020. This paper is available to view online as part of the Committee pack for that meeting.</p>
<b>Materiality</b>	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Based on our professional judgement, materiality for the Authority's accounts was set at £620k which equated to 2% of actual gross expenditure at the planning stage of the audit. This benchmark was chosen as the Authority is a non-profit organisation and total expenditure is a key measure of financial performance for users of the financial statements.</p> <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £31k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We would also report to the Audit Committee on any uncorrected disclosure matters identified when assessing the overall presentation of the financial statements. We have identified unadjusted misstatements in relation to the audit of the 2019/20 Statement of Accounts. This includes 2 uncorrected misstatements of £230k and £146k with regards to an overstatement of the council offices car park valuation and the Goodwin judgement impact respectively. We also identified minor discrepancies in the cash flow statement.</p>
<b>Significant Risk</b>	<p>Our audit work was designed to specifically address the following significant audit risks which are presented in further detail below. Significant audit risks are the areas deemed to be those with the greatest potential of being materially incorrect in the financial statements and are therefore areas of greater focus for the audit team.</p> <ol style="list-style-type: none"> <li>1. <b>Management override of controls:</b> We concluded satisfactorily in this area. We did not identify any significant bias in the key judgements made by management based on work performed. Furthermore, we have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed. We noted that not all individual journals have evidence of review, and have raised a control recommendation. There are no other findings to report.</li> </ol>

- **Risk identified**

This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

- **Deloitte response**

- We have considered the overall sensitivity of judgements made in preparation of the financial statements. This included the following areas:
  - **Significant and unusual transactions:** We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.
  - **Journals:** We have performed design and implementation testing of the controls in place for journal approval. We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.
  - **Accounting estimates:** We performed design and implementation testing of the controls over key accounting estimates and judgements. We reviewed accounting estimates for biases that could result in material misstatements. We note that, overall, the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result. We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

2. **Valuation of property assets:** In our planning paper this risk was not classified as a significant risk, however as detailed below, during the course of our work we identified material errors in the valuation. As this is the second year in a row that we have identified material errors in the valuation we elevated this to a significant risk.

Our conclusion in this risk area is that the net book value of property assets is not materially misstated and the Council's valuation assumptions are generally reasonable and fall within the expected range. During our testing:

- We identified a componentisation error on the Council Offices valuation amounting to an overstatement of £1.4m which has subsequently been corrected by management. This error had not been identified by the DVS quality control procedures.

	<ul style="list-style-type: none"> <li>• There were inconsistencies identified between the input data used in the valuation and that held by the Council. This indicated an issue with the quality of data held by the Council.</li> <li>• We noted that there was a lack of review of property valuation and the valuation inputs.</li> </ul> <p>We have raised recommendations in respect of the points above.</p> <ul style="list-style-type: none"> <li>• <b>Risk identified</b> <p>The Council is required to hold property assets within Property, Plant and Equipment ("PPE") and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.</p> </li> <li>• <b>Deloitte response</b> <ul style="list-style-type: none"> <li>○ We tested the design and implementation of key controls in place around the property valuation.</li> <li>○ We obtained an understanding of approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.</li> <li>○ We tested a sample of inputs to the valuation.</li> <li>○ We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets including considering the assumptions made of movements between the valuation being performed at earlier stages in the year and the year-end.</li> <li>○ We tested a sample of revalued assets and re-performed the calculation of the movement to be recorded in the financial statements to check correctly recorded.</li> <li>○ We considered the impact of uncertainties relating to Covid-19 and the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.</li> <li>○ Given, we have identified errors in the valuation in the last 2 years, we challenged management on assets not valued in the previous 2 years and a desktop valuation was performed on a sample of those assets by the DVS.</li> </ul> </li> </ul>
<b>Overall opinion</b>	<p>We issued an unqualified opinion on the Authority's 2019/20 accounts on 26 November 2020. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority as at 31 March 2020 and its income and expenditure for the year then ended.</p>

Annual Governance Statement and Other Information	
<b>No issues were identified in relation to this work</b>	As appointed auditors, we review the Annual Governance Statement ("AGS") and other information presented with the financial statements to check that information is consistent with the financial statements. We do not have any findings to report in relation to this.
Powers and Duties	
<b>We did not receive any questions about the accounts or make any public interest reports</b>	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>
Whole of Government ("WGA") accounts return	
<b>The Authority is below the audit threshold</b>	The Council prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. Under WGA requirements, we are required to submit a return outlining any issues arising from the audit and, as applicable here, confirming that the authority's closing balances fall below the threshold above which further audit procedures on the WGA consolidation pack are required. As required by the guidance, we submitted the return confirming these matters to the National Audit Office on 02 December 2020. This return reported no issues.
Audit Certificate	
<b>We have issued our certificate</b>	We issued our certificate on 26 November 2020. The certificate confirms that we have concluded the audit for 2019/20 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.



## 5. Value for Money

### Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

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

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Authority.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

Based upon the work performed in our risk assessment, we did not identify any significant areas of risk that required inclusion in our conclusion.

### The VFM conclusion

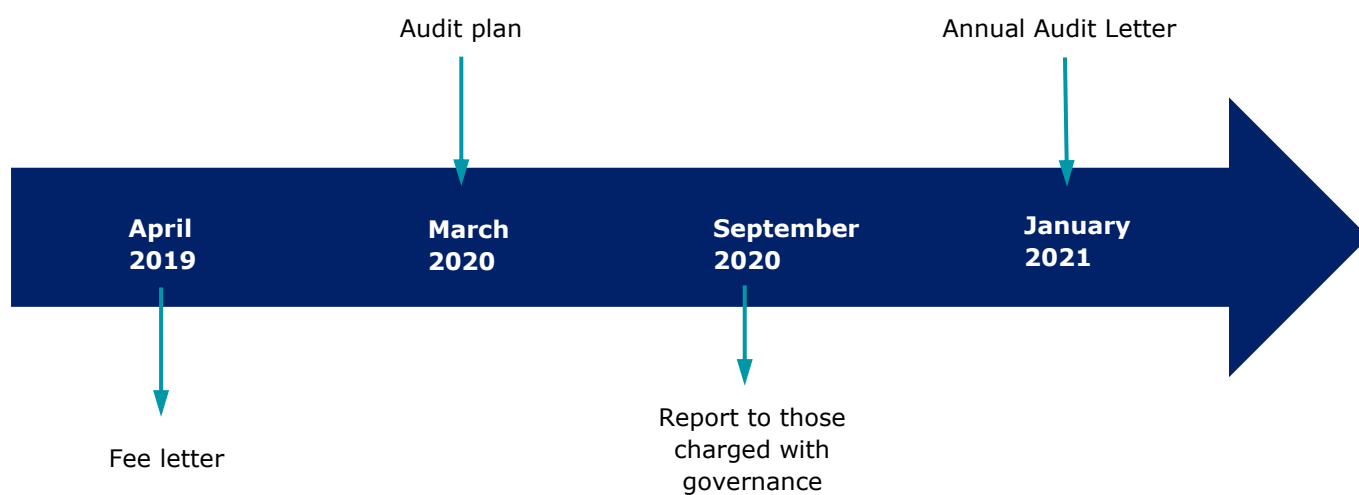
Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion for the 2019/20 financial year.

## 6. Other Matters

### Reports issued

Reports issued during the course of the 2019/20 audit included:

- Audit Fee letter;
- Annual Audit Plan;
- The Report to Those Charged with Governance on the 2019/20 audit of the Authority; and
- This Annual Audit Letter.



### Analysis of audit fees

Audit fees charged to date are as follows:

	2019/20 £000
Scale fees for the audit of the Authority's annual accounts, VfM conclusion and Whole of Government Accounts return	37.9
Additional fee due to change of scope due to COVID and Asset Valuation errors resolution*	16.8
<b>TOTAL</b>	<b>54.8</b>

\*This part of the fee is subject to final agreement with PSAA

## Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.



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