

5 November 2021

Maldon District Council
Council Offices
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Essex
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Your ref: PH/AS/2021

Dear Chair of Audit Committee,

Delay with the finalisation of the external statutory audit of Maldon District Council for the year ended 31 March 2021

This letter has been prepared to outline the reasons for the ongoing delay to the finalisation of the statutory audit of Maldon District Council and should be read in conjunction with agenda item 7 prepared by s151 Officer.

At the audit committee of 23rd September 2021 we reported that the audit would not be completed by the target date of 30 September 2021 and that a range of audit areas remained to be concluded upon. Included within these outstanding areas was our audit of the Covid Grants which we identified as an area of audit focus in our audit plan of 29 July 2021.

A key judgment to be made in respect of the COVID-19 grants is to determine whether the Authority is acting in a position of “principal” or “agent” for the administration of each grant. The key distinction being that a grant for which the Authority acts as Principal will be recognised as both Income and Expenditure within the Comprehensive Income and Expenditure Statement (CIES) whereas a grant for which the Authority acts as Agent will not feature in the CIES.

Following receipt of management’s paper setting out the classification of COVID-19 grants between Agent and Principal on 26th October 2021, and finalisation of our internal review of the terms and conditions of COVID-19 grants on 29th October 2021 we have recently been able to advance our testing in this area.

Whilst carrying our audit testing on the recognition of COVID-19 grants we have identified a classification error in the treatment of these grants. We note that that the Authority has treated COVID-19 grants which they act as agent on the CIES rather than on the Balance Sheet. This has effectively led to an overstatement of expenditure and income. The finance team performed an analysis to segregate “agent” v/s “principal”, however, in some cases, the subsequent accounting treatment did not follow the classification identified by the Authority. We note that a key balance was the Small Business Grant which was correctly identified as an “agent” but was not accounted for as such in the CIES.

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We would like to highlight that:

- in some instances the judgement around the classification was right but the subsequent accounting treatment was not appropriate,
- in other instances the judgement around the classification was not correct and consequently the accounting treatment was not appropriate; and
- in the remaining instances the judgement around the classification was correct and the accounting treatment was also appropriate.

We can confirm that this classification error has a net nil impact on the net cost of service, however it impacts our audit materiality.

We set out audit materiality in our planning report presented to the Audit Committee on 29th July 2021. Our materiality is based on 2% of Gross Expenditure and was set at £1.2m for the 2020/21 audit. Given that the proposed adjustment impacts the Gross Expenditure balance, this consequently impacts our materiality. This impact on our audit approach and will affect the audit in the following ways:

- We will need to revisit our scoping decisions to ensure that sufficient balances have been tested to address the risk of material misstatement; and
- We will need to revisit all of substantive procedures completed to date to evaluate whether our sample sizes are sufficient and whether the results of our analytical procedures remain sufficiently precise.

The overall impact on the materiality can only be determined once we have received the updated statement of accounts from the Authority. However is likely to result in a reduction in the region of £500k, giving a revised materiality in the region of £0.7m.

We highlight that the COVID-19 grants are new this year and involve significant judgement in accounting treatment which can be complex. We also highlight there were no clear central guidance provided for the Authority to follow.

We are working with the Authority to devise a plan for the completion of the audit and agree on timeline for finalisation.

Yours sincerely

Paul Hewitson
Deloitte LLP