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Dear Tony

**County Durham and Darlington Fire and Rescue Authority
Additional external audit fee for 2019/20**

Following completion of the audit, we have revisited the fees for 2019/20. As noted throughout the year, we highlighted that there would be additional audit fees as a result of increased regulatory pressures and requirements, and we gave some early indications as to what we saw as a likely recurring increase in the base audit fee. We also mentioned that we would review the final position on fees when the audit was concluded.

In addition to the increase in the base audit fee, there have been some one-off increases in the audit fee for the 2019/20 audit year, and mainly relate to audit issues arising from the Covid-19 pandemic and other matters.

In calculating the additional fees in this letter, we have carefully considered the impact of:

- the continued excellent support and work by your team in working closely with us to complete the audit; and
- the high standard of working papers.

All fees quoted in this letter are subject to VAT.

Previously agreed recurring fee in relation to group accounts

We have already previously agreed a recurring fee increase relating to group accounts. The fee for this in 2019/20 is £1,477. This is highlighted here as it remains as a variation to the scale fee.

Recurring increases in the base audit fee arising from regulatory pressures

As you are aware, there have been increasing demands on auditors to carry out more work in key audit areas. This has included pressures from our regulator, the Financial Reporting Council. In October 2020, the FRC published its first report on Local Audit, which included criticism of audit quality and the need to drive up standards. This report was based on reviews of 2018/19 audit work, and we have responded to these and other demands with additional audit procedures in 2019/20.

Our assessment of the additional audit fees in this respect are as follows:

Audit area for recurring additional work	Final fee 2019/20
Additional work on PPE and related valuations	£1,789
Additional work on pensions	£1,533
Additional work on review of journals	£1,022
Additional work in relation to the consideration of going concern	£766
Total additional fee for 2019/20 (recurring in future years)	£4,747

One-off fee increases

The following one-off fee increases relate to the 2019/20 audit only and are not expected to be recurring.

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures to review the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities – review of the revised disclosures for the firefighters’ scheme in respect of McCloud	£1,026
Additional procedures in relation to Material Valuation Uncertainty of the Authority’s property assets, including consideration of whether an additional disclosure was required and whether an Emphasis of Matter paragraph was needed in the audit report. We concluded that this was not necessary given that a desktop revaluation exercise had been undertaken and the nature of the assets in the portfolio.	£513
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund’s property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Total additional fee for 2019/20 (not recurring)	£2,052

Other external factors

There are several external factors that have an impact upon the Council and/or Mazars as your external auditor, and which have contributed to and will continue to contribute to upward pressures on audit fees including:

- high profile corporate failures that have decreased trust and confidence in ‘business’ and the auditing profession;
- multiple on-going regulatory reviews that are reshaping the reporting environment and highlighting fundamental questions about the auditing professions, including the Redmond Review, where the recommendations made are of major significance to the future of our role as your local auditor; and
- the increasing complexity of financial reporting, including the increased focus on judgemental estimates, for example, pensions and the valuation of land and buildings.

Summary of the Final Fee Position for 2019/20

Service	Final fee 2019/20
Scale fee set by Public Sector Audit Appointments	£22,235
Group accounts (previously agreed recurring fee as noted on page 1)	£1,477
Recurring increases in the base audit fee arising from regulatory pressures (see analysis on page 2)	£4,747
One-off fee increases (see analysis on page 2)	£2,052
TOTAL FINAL AUDIT FEE FOR THE 2019/20 AUDIT	£30,511

We appreciate that the revised fee for 2019/20 represents a significant increase compared to last year, however, we believe the total revised fee for our work compares favourably with fees in the current market for similar organisations.

The proposed fee variation will be reported in our 2019/20 Annual Audit Letter, which will be issued shortly. It is subject to approval by Public Sector Audit Appointments Ltd.

It would be helpful to have an early indication of whether you support the proposed fee variation or would wish to discuss it further.

Yours sincerely

Gavin Barker

Gavin Barker
Director
For and on behalf of Mazars LLP