

North Herts District Council

Additional Fee Analysis
year ended 31 March 2021

July 2022

Overall Summary

Additional Work	£
Changes in work required to address professional and regulatory requirements & scope changes associated with risk (Refer slide 3)	13,174
Additional work required due to changes in scope as a direct result of Covid-19 (Refer slide 4)	17,206
Minimum additional fee for work performed on VFM arrangements as per PSAA approved range (Refer slide 5)	6,000
Minimum additional fee for work performed as required by ISA (UK) 540 (Revised) as per PSAA approved range (Refer slide 6)	3,490
Additional fee for IAS 19 impact in relation to assets belonging to Hertfordshire Building Control (HBC) issue (Refer slide 7)	2,455
Total	42,325

Professional and regulatory requirements & scope changes associated with risk

Description	Additional number of hours					Fee for additional number of hours				
	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £165	Senior Mgr/ Mgr £91	Senior Auditor £59	Other staff £45	Total Fee variation (£)
We have a higher inherent risk over pension valuation. This cost reflects the time taken to address this risk which includes review of PwC report, EY Pensions team review of PwC report and audit team follow up of required procedures from these reviews.	4	10	50	0	64	660	910	2,950	-	4,520
We have a higher inherent risk over PPE and IP asset valuation. This means we have completed testing at a lower testing threshold. This cost reflects the time taken to test a sample of assets and perform procedures over assets not revalued and the subsequent review as well as consider cluster wide findings from internal specialists.	4	10	50	0	64	660	910	2,950	-	4,520
<p>There are a number of areas where an increase in overhead costs has led to a spread of costs across audits, this allocation is made based on the size and complexity of the audit:</p> <ul style="list-style-type: none"> - Investment in time in our professional practices department (PPD) team to consider events such as: risks of non compliance with laws and regs; consultation and approval requirements on materiality for MLAs; rotation approvals of EP portfolios; Prior year adjustments consultation; approval and application of pre-issuance policy; Audit Quality Support team annual cycle of GPS audits review (introduced from 2018 for FRC scope audits). - We have invested in data capture methods to meet the requirements of enhanced IPE (information provided by the entity) testing, which results in a direct charge to each audit code for the technology costs. - Testing thresholds have been lowered following feedback from regulators that testing more generally should have a greater response to risk of error, resulting in higher testing sample sizes for those areas not mentioned specifically above. <p>Note that not all the procedures/costs here relates to the audit team, but the hours reflect the additional time incurred by audit.</p>	4	9	45	0	58	660	819	2,655	-	4,134
Total	12	29	145	-	186	1,980	2,639	8,555	-	13,174

Changes in scope as a direct result of Covid-19

Description	Additional number of hours					Fee for additional number of hours				
	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £165	Senior Mgr/ Mgr £91	Senior Auditor £59	Other staff £45	Total Fee variation (£)
Going Concern assessment. This includes all meetings attended by both partner and manager to discuss going concern and work performed on cashflow forecasts and stress testing. Due to the additional work required on the Pension IAS19 figures due to the actuary error, as referred to below, the GC assessment and cash flow forecast had to be extended, resulting in additional time	8	14	7	0	29	1,320	1,274	413	-	3,007
Due to Covid-19 the Authority's investment properties and other PPE assets were potentially subject to risk of material changes in valuations. We therefore engaged our EY Real Estate specialists to help the core audit team in valuation. Our sample included 4 investment properties and 4 PPE assets. This SFV reflects the time required to consider the results of their work and the potential impact of one investment property which was assessed as outside the range determined by our specialist on the financial statements.	36	0	35	0	71	5,940	-	2,065	-	8,005
Due to the impact of COVID-19, we raised our risk assessment on NNDR appeals provision as higher inherent risk area. This reflects the time required to address the higher inherent risk related to NNDR appeals provision .	5	12	20	0	37	825	1,092	1,180	-	3,097
Due to the impact of COVID-19, we identified a higher inherent risk relating to accounting for COVID-19 grants. This reflects the time required to address the higher inherent risk related to accounting of COVID-19 grants, which included assessment of whether the Council was acting as agent or principal and whether there were any associated conditions, and whether the accounting for the grants correctly reflected this.	5	12	20	0	37	825	1,092	1,180	-	3,097
Total	54	38	82	-	174	8,910	3,458	4,838	-	17,206

VFM arrangements

This amount (£6,000) is the minimum additional fee for work performed on VFM arrangements as per new requirements in the Code of Audit Practice 2020. The amount is taken as per the approved PSAA range of additional fee according to their letter dated August 2021.

The new requirements in the Code of Audit Practice 2020 in relation to an audited body's arrangements to secure value for money have a significant impact on the auditor's work and require additional fees.

The new approach to this work from 2020/21 audits onwards requires an annual commentary from the Authority's auditors on arrangements to secure VFM, which should be published as part of the auditor's annual report. The commentary should enable the auditor to explain the work they have undertaken during the year, and to highlight any significant weaknesses that they have identified and brought to the Authority's attention, along with their recommendations for improvement.

ISA (UK) 540 (Revised)

Description	Additional number of hours					Fee for additional number of hours				
	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £165	Senior Mgr/ Mgr £91	Senior Auditor £59	Other staff £45	Total Fee variation (£)
Additional fee for work performed as required by ISA (UK) 540 (Revised) - Auditing accounting estimates and related disclosures. The amount is taken as per the PSAA letter dated August 2021. Although this includes work on all estimates the main area of work related to the pensions liability where we had to engage EY Pensions to perform a roll forward calculation of the estimate to develop our own point estimate	8	8	24	0	40	1,320	728	1,442	-	3,490
Total	8	8	24	-	40	1,320	728	1,442	-	3,490

This additional fee is for work performed as required by ISA (UK) 540 (Revised) - Auditing accounting estimates and related disclosures. The amount is taken as per the PSAA guidance of additional fee according to their letter dated August 2021. The minimum approved amount of £2,500, however the additional fee depends on Authority type and individual circumstances which could result in the fee variation higher than the suggested minimum.

The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. For North Herts District Council, we considered high risk estimates in valuation of pension liability, valuation of land & buildings and NNDR appeals provision.

Hertfordshire Building Control (HBC) issue

Description	Additional number of hours					Fee for additional number of hours				
	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £165	Senior Mgr/ Mgr £91	Senior Auditor £59	Other staff £45	Total Fee variation (£)
This reflects the time required to address an error in the actuary's IAS19 report and hence the net pension liabilities reported in draft accounts. This was due to the incorrect treatment of assets related to Hertfordshire Building Control (HBC) at outset of HBC's participation in the Hertfordshire Pension Fund (HPF). Although we concluded the impact was not material for North Hertfordshire for either 2020/21 or 2019/20 we needed to engage EY pensions specialists to gain assurance over the approach adopted by the actuary to establish the impact of the error. We also had to issue an updated ISA260 report in relation to this issue, and present this to the Audit Committee, and include the unadjusted difference in the Letter of Representation	4	10	15	0	29	660	910	885	-	2,455
Total	4	10	15	-	29	660	910	885	-	2,455

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