

East Hertfordshire District Council

Additional Fee Analysis
Year ended 31 March 2021

April 2023

Overall Summary

Description	Amount
Changes in work required to address professional and regulatory requirements and scope associated with risk (slides 3 and 4)	£28,354
Additional fee to address in-year risks as noted in ARR report (slides 5 to 8)	£34,046
Total	£62,400

Changes in work required to address professional and regulatory requirements and scope associated with risk

Description	Additional number of hours					Fee for additional number of hours				
	Partner	Manager	Senior	Other Staff	Total Hours	Partner (£165)	Manager (£91)	Senior (£59)	Other Staff (£45)	Total Fee variation
Group accounting: Additional fee relates to coordinating with component auditors, testing consolidation, testing properties owned by the subsidiary and performing group related procedures	8	40	20	0	68	1,320	3,640	1,180	0	6,140
Pension liability valuation: 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.	5	15	45	0	65	825	1,365	2,655	0	4,845
Valuation of PPE and investment properties: 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 for the audit team 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.	5	20	24	0	49	825	1,820	1,416	0	4,061
PPE valuation - use of expert: We have engaged our experts in PPE valuation to address the risk in valuation of PPE and IP. They reviewed 2 assets - one of which was split between PPE and IP and identified that the IP element of the valuation was outside their expected range	5	30	0	0	35	825	2,730	0	0	3,555

Changes in work required to address professional and regulatory requirements and scope associated with risk (continued)

Description	Additional number of hours					Fee for additional number of hours				
	Partner	Manager	Senior	Other Staff	Total Hours	Partner (£165)	Manager (£91)	Senior (£59)	Other Staff (£45)	Total Fee variation
<p>Increased FRC challenge: 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>	13	30	60	30	133	2,145	2,730	3,528	1,350	9,753
Total	36	135	149	30	350	5,940	12,285	8,779	1,350	28,354

Additional fee to address in-year risks as noted in this report

Description	Additional number of hours					Fee for additional number of hours				
	Partner	Manager	Senior	Other Staff	Total Hours	Partner (£165)	Manager (£91)	Senior (£59)	Other Staff (£45)	Total Fee variation
<p>Prior period adjustments: We identified four material errors which required prior year adjustments in 2020/21 on the following areas:</p> <ol style="list-style-type: none"> 1. Expenditure and Funding Analysis 2. Operating leases 3. Property, plant and equipment presentation 4. Pension liability <p>These required additional work and input from the manager and partner as well as internal consultation and sign off from PPD</p>	14	68	14	0	96	2,310	6,188	826	0	9,324
<p>Technical Accounting issues: Minimum revenue provision was initially identified as a fraud risk due to the change in the Council's policy for providing MRP. The risk was subsequently reduced since the Council determined it was not planning to make any changes. We performed procedures to confirm that the method of calculation remained appropriate.</p>	1	2	0	0	3	165	182	0	0	347
<p>Quality or preparation issues: The volume of changes required to the financial statements created significant challenges in confirming that all identified misstatements had been amended and ensuring that other balances and disclosures were not being amended post-audit, and this required significant audit resources to manage. Additional review was also required to our ISA 260 reporting to ensure the completeness and accuracy of misstatements reported. The versions of the 'final accounts' reached version 6. Each version required checking if changes have been effected, and confirming that other areas with no changes required did not change.</p>	4	12	0	0	16	660	1,095	0	0	1,755

Additional fee to address in-year risks as noted in this report (continued)

Description	Additional number of hours					Fee for additional number of hours				
	Partner	Manager	Senior	Other Staff	Total Hours	Partner (£165)	Manager (£91)	Senior (£59)	Other Staff (£45)	Total Fee variation
VFM Commentary: Minimum additional fee for work performed on VFM arrangements as per new requirements in the Code of Audit Practice 2020 (amount taken as per the PSAA letter dated August 2021)	10	48	0	0	58	1,650	4,350	0	0	6,000

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.

Additional fee to address in-year risks as noted in this report (continued)

Description	Additional number of hours					Fee for additional number of hours				
	Partner	Manager	Senior	Other Staff	Total Hours	Partner (£165)	Manager (£91)	Senior (£59)	Other Staff (£45)	Total Fee variation
<p>COVID-19: 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 elapsed time between the initial preparation of the accounts and the delays in responses to queries the Going Concern assessment and disclosure had to be updated more than once and we undertook a number of reviews of this</p> <p>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. We identified an error in the business rate appeals provision performed by the specialist Analyse Local. This was due to a national issue identified concerning the Analyse Local threats report used in the calculation of the 2020/21 appeals provision. We spent additional time determining the impact of the error made by the specialist to our audit procedures, and quantifying the change required to the statement of accounts.</p> <p>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.</p>	16	70	45	0	131	2,640	6,370	2,655	0	11,665

Additional fee to address in-year risks as noted in this report (continued)

Description	Additional number of hours					Fee for additional number of hours				
	Partner	Manager	Senior	Other Staff	Total Hours	Partner (£165)	Manager (£91)	Senior (£59)	Other Staff (£45)	Total Fee variation
<p>ISA 540*: We employed the services of an EY Pensions specialist to review the Council's IAS19 reports and run a parallel actuarial model which was compared to that produced by the Council's actuary in response ISA540 (revised) which requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.</p> <p>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 and Governance Committee, and include the unadjusted difference in the Letter of Representation</p>	4	10	16	0	30	660	910	930	0	2,500

* 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 East Herts District Council, we considered high risk estimates in valuation of pension liability, valuation of land & buildings and NNDR appeals provision.

Additional fee to address in-year risks as noted in this report (continued)

Description	Additional number of hours					Fee for additional number of hours				
	Partner	Manager	Senior	Other Staff	Total Hours	Partner (£165)	Manager (£91)	Senior (£59)	Other Staff (£45)	Total Fee variation
<p>Other: 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). The impact was material for East Hertfordshire and 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 spent additional time reviewing the revised IAS 19 report and quantifying the error in the statement of accounts.</p>	4	10	15	0	29	660	910	885	0	2,455
Total	53	220	90	0	363	8,745	20,005	5,296	0	34,046