The Audit Findings for Essex Police, Fire and Crime Commissioner Fire and Rescue Authority

Year ended 31 March 2022

January 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Essex Police, Fire and Crime Commissioner Fire and Rescue Authority's ("you" or 'the Authority') financial statements for the year ended 31 March 2022 for those charged with governance

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- give a true and fair view of the financial positions of the Authority's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with each set of audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Commentary on the audit process

The quality and accuracy of the Authority's financial statements and supporting working papers are good. The finance team and wider organisation are fully engaged in the audit process and we feel management have a firm commitment to produce high quality and timely financial statements. The quality of the financial statements continues to improve year on year and the Authority demonstrates best practice in a number of its disclosures.

The timetable we agreed with management to complete the audit was for the substantive work to start at the beginning of July and to be completed in 5 weeks. With the substantive audit work completed by early August, we planned to conclude and report by the end of September. This was an ambitious plan and was contingent on us receiving financial statements and a complete suite of working papers on day 1 of the audit. It also required the Authority to respond to queries within 24 hours which management agreed to.

Whilst a draft set of financial statements were provided to us on day 1 that enabled us to start some of the work, the final draft financial statements were not finalised until 3 weeks into July. The reason for the delay was outside of the Authority's control as they were waiting on information from some of the Essex Districts in order to account for the collection fund accurately. It is important to note that the Authority did publish their final draft accounts well ahead of the statutory deadline.

In terms of the 24 hour turnaround, this was largely complied with. However there were occasions when queries took longer due to annual leave within the finance team. As a result, the substantive audit work took longer than the 5 weeks planned and took 7 weeks instead. Given the size and complexity of the Authority's financial statements, a 7 week audit is still an impressive timescale and a great deal of credit must go to your finance team for achieving this.

Summary of key findings and headlines

Details of our findings are summarised on pages 6 to 22. There are no adjusted misstatements to the draft accounts published on the 26 July. We have identified several misstatements which management have decided not to adjust for on the basis that these errors are both individually and in aggregate not material. Unadjusted misstatements are set out in Appendix C. Our audit work also identified several presentation and disclosure misstatements which management have adjusted for. These are also detailed in Appendix C.

We have raised recommendations for management as a result of our audit work in Appendix A and our follow up of recommendations from the prior year's audits are detailed in Appendix B. One control finding to draw your attention to is in relation to deleted transactions within journals. Our risk assessment of your journals control environment identified that the system allows certain individuals to delete journal transactions posted to the ledger. This is unusual and not something we would expect of an accounting system. As a result, we had to perform unplanned additional work to understand this issue and respond to the risk that it presented. No issues were identified from this follow up work.

1. Headlines - continued

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- give a true and fair view of the financial positions of the Authority's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with each set of audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our work is nearing completion and there are no matters of which we are aware that would require modification of our audit opinion for the Authority's financial statements. Subject to the following outstanding matters, we propose an unqualified audit report opinion:

- sharing the final Audit Findings Report with TCWG

We have concluded that the other information to be published with each set of financial statements is consistent with our knowledge of your organisations and the financial statements we have audited.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by 30 December. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any risks of significant weakness.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties

We have completed the majority of work under the Code and we expect to certify the completion of the audits upon the completion of our work on Authority's VFM arrangements and Whole of Government consolidation procedures, as outlined in the body of the report.

Significant Matters

We did not encounter any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of the PFCC to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will have been discussed with management.

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Authority. The audit of the financial statements does not relieve management or the PFCC of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- an evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to the PFCC in June 2022.

Conclusion

We nearing the completion of our audit of your financial statements and, subject to outstanding matters on page 4 being resolved, we anticipate issuing an unqualified audit opinion on the financial statements. The proposed audit opinion is set out in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during the audit process.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have not altered our materiality levels from those communicated in our Audit Plan in June 2022.

We detail in the table our determination of materiality.

	Final Audit	Qualitative factors considered
Materiality for the financial statements	£1,570,000 (2% of gross revenue expenditure)	Business environment and external factors. Gross revenue expenditure is adjusted to remove the impact of actuarial McCloud and injury pensions on the basis that these do not reflect the underlying performance of the Authority.
Performance materiality	£1,177,500 (75% of headline materiality)	Control environment and quality / accuracy of accounts and working papers provided.
Trivial matters	£78,500 (5% of headline materiality)	

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority/Fund faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of controls, in particular regarding journals, management estimates and transaction outside the course of business as a significant risk of material misstatement.	In response to the risk highlighted in the Audit Plan, we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** As in the prior year, our work on journals identified that two super users also had finance processing duties. We have performed additional work to ensure suppliers have not been inappropriately created by these super users on the AP system. We have also performed work to ensure no journals during 2021/22 have been approved through this super user access. Our work identified 3 additional deficiencies in the journal control environment – see below: 1. **Retrospective approval** – the design of management's internal control around journal authorisation has been found to be deficient insofar as journals are approved after the journal has been posted to the ledger. As such this control can only detect and correct errors rather than prevent them from occurring. This is not a change from the prior year and has been the design of the control for several years. We have raised a control recommendation for management to consider in Appendix A to alter the design of the control environment to make journal authorisation prospective rather than retrospective. 2. **Delayed approval** – journals posted to the ledger should be approved within 1 week of them being posted as part of a weekly control. As part of our journals work, we identified that for 7 out of 33 journals tested, the journal was approved after this period. Management explained that the reason for the delay was because of annual leave in the finance team. We have raised a control recommendation to management in Appendix A to ensure all journals are approved within the 1 week timeframe and that arrangements need to be put in place to cover this control when members of staff are on annual leave. **Continued overleaf…**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls - *continued*	3. **Deleted transactions within journals** – As part of our assessment of the journal control environment we came to understand that your accounting system allows certain users to delete transactions within journals. This is unusual as typical accounting systems do not allow transactions posted to the ledger to be deleted. Typically, once a transaction is posted to a ledger, the only way to remove its impact would be to post a reversing transaction. It is important to note that this has been a feature of your accounting system for several years and so is not a change from the prior periods. The fact your accounting system allows users to delete transactions within journals poses several risks as detailed below: I. Your accounting system does not preserve a complete audit trail – there is therefore a risk that transactions in your ledger are incomplete II. Deleted transactions could be used to perpetrate or conceal fraud III. Management do not have processes or controls to review the appropriateness of deleted transactions within journals **Audit work performed:** Your finance team have provided us with evidence to detail how your accounting system works and why certain transactions have been deleted. Most of the transactions identified in the report were lines removed or changed prior to the journal being posted to the ledger. They are therefore not genuine transactions deleted from the ledger and so pose no risk to the financial statements. Equally, the vast majority of the transactions related to commitment postings which have no impact on the financial statements – and so these too were removed from our consideration. Our risk assessment work therefore identified 6 transactions types of 11 individual transactions where further corroborative work was carried out. Based on the work performed we are satisfied that the deleted transactions were appropriate and not indicative of fraud or management bias. Whilst our work has provided us with assurance that the accounts are free from material error, the control weakness in the system remains. We have therefore raised a recommendation to management in respect of this – see Appendix A Conclusion Our work has not identified any further material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Essex Police, Fire and Crime Commissioner and Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority. Conclusion Our work has not identified any material issues in relation to revenue recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability The Authority's pension fund net liability, in relation to both the Local Government Pension Scheme and the Firefighters Pension Scheme, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£902 million), and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	Auditor commentary In response to the risk highlighted in the Audit Plan, we have: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report; **Findings:** As part of our work on the net pension liability, we obtain assurances via a letter from the auditor of the Essex County Council Pension Fund. In their letter to us they confirmed that there was a difference between the estimated fund balances sent to the actuary and the fund balances on the pension fund's net asset statement. To be clear, the Pension Fund is responsible for submitted estimated fund balances to the actuary. Essex Fire has no part to play in this process. Total scheme assets in the submission to the actuary was £9,564,617k and the figure audited by the pension fund auditor was £81m higher at £9,645,581k. The difference is a result of timing. The submission to the actuary is done at an earlier time than the accounts are finalised by the Pension Fund. This means there is a greater level of estimation in the figures going to the actuary which results in a slight difference. To put into context, the £81m difference represents less than a 1% variance. This difference was not material to the pension fund and so the pension fund did not request the actuary to update their IAS 19 report. We performed work to assess whether this difference is material to the financial statements of Essex Fire. Essex Fire's share of total scheme assets is 0.86% and so the understatement in your financial statements has been calculated as £980k. As the misstatement is not material, management have decided not to request an updated actuarial report to adjust the accounts. As the amount is in excess of trivial, we are reporting this difference to you as an unadjusted misstatement. **See** Appendix C. **Conclusion** Except for the matter above, we have not identified any issues which are required to be reported to those charged with governance. Sufficient appropriate evidence has been obtained against this significant risk and there are no matters that require reporting in our auditor's report.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings Each year, management revalue all of their of land and buildings to ensure the carrying value is not materially different from the current value (or fair value for Surplus assets) as at the balance sheet date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£127 million as at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk of material misstatement.	Auditor commentary In response to the risk highlighted in the Audit Plan, we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written and discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • engaged our own auditor's expert to provide assurance that your valuer's assumptions are reasonable • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these are not materially different to current value at year end. **Conclusion** Our work has not identified any material issues in relation to the risk.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations £127m	Essex, Police, Fire and Crime Commissioner Fire and Rescue Authority's freehold and leasehold properties were independently valued via a desktop valuation on 31 March 2022 by Lambert Smith Hampton. The valuations were in accordance with the requirements of the International Valuation Standards and the RICS Valuation Standards. Land and buildings comprise £122m of specialised assets such as fire stations and training facilities, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings £5m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The valuation of land and buildings has resulted in a net increase of £4m. Of this increase, £0.7m has directly impacted on the Net Cost of Service within the Comprehensive Income and Expenditure Statement, with the remaining £3.3m representing an increase to the Authority's revaluation reserve.	We reviewed your assessment of the estimate considering: • assessment of management's expert to be competent, capable and objective; • completeness and accuracy of the underlying information used to determine the estimate; • the appropriateness of your alternative site assumptions which remain consistent with previous years; • reasonableness of increase/decrease in estimates on individual assets; • consistency of estimate against the Gerald Eve report on property market trends, and reasonableness of the increase in the estimate; and • adequacy of disclosure of estimate in the financial statements **Findings:** All your land and buildings have been appropriately valued by the instructed valuer as at 31 March. Management has obtained sufficient evidence that the carrying value of all of your land and building as at 31 March 2022 is not materially different from the current value. One of the key assumptions in the valuation of Depreciated Replacement Cost (DRC) assets is the 'Build Cost per square foot' (BCIS). As the vast majority of Essex Fire's portfolio are DRC assets i.e. fire stations, we performed a significant amount of work to assess whether the BCIS used by your valuer is reasonable. This work involved us comparing the BCIS used by your valuer to published data by the Royal Institute of Chartered Surveyors (RICS). This confirmed the BCIS used by your valuer is within the range. Whilst it is within the range it was skewed towards the upper end. We challenged your valuer and obtained information directly from estates justifying why a BCIS in the upper range for Essex Fire's portfolio was appropriate. We also employed our own auditor's expert to review the methodology and judgements used by your expert in determining the BCIS. In all regards, we were satisfied that BCIS used by your valuer is reasonable. **Conclusion** Our work has not identified any material issues in relation to the risk.	Light purple – see key below

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability LGPS: £30m Firefighters' Officer Pension Scheme: £872m	The Authority's total net pension liability at 31 March 2022 is £902 million (PY £950 million) comprising the Essex Local Government Pension Scheme and the Firefighters Pension Scheme. The Authority uses Barnet Waddingham to provide actuarial valuations of the Authority's assets and liabilities derived from these schemes. In the draft financial statements, there has been a £24m net actuarial loss during 2021/22, of which a charge of £16m has impacted the Comprehensive Income and Expenditure Statement. The remaining £38m has increased the Authority's unusable reserves. For the LGPS scheme, a full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is issued in the intervening periods, utilising key assumptions such as life expectancy, discount rates and salary growth. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	Our assessment of the estimate has considered: • assessment of management's expert for competence, capability and objectivity • completeness and accuracy of the underlying information used to determine the estimate • reasonableness of increase/decrease in estimate • adequacy of disclosure of estimate in the financial statements • the use of PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below and overleaf for our comparison of actuarial assumptions	Light purple – see key below

Local Government Pension Scheme Assumptions	Actuary Value	PwC range	Assessment
Duration of Liabilities	22 years	15 – 22 years	● (Grey)
Discount rate	2.6%	2.55% to 2.60%	● (Light purple)
RPI inflation	3.6%	3.3%-3.95%	● (Light purple)
CPI inflation, pension increases and CARE revaluation	3.2%	3.05% - 3.45%	● (Light purple)
Salary growth	4.2%	1.00% > CPI	● (Light purple)
Life expectancy – Males currently aged 65	21.6	20.5 - 23.1	● (Light purple)
Life expectancy – Males currently aged 45	23	21.9 - 24.4	● (Light purple)
Life expectancy – Females currently aged 65	23.7	23.3 – 25.0	● (Blue)
Life expectancy – Females currently aged 45	25.1	24.8 - 26.4	● (Blue)

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability LGPS: £30m Firefighters' Officer Pension Scheme: £872m	For the Firefighter's scheme, a full actuarial valuation is required every four years. The latest full actuarial valuation was completed in 2020. A roll forward approach is issued in the intervening periods, utilising key assumptions such as life expectancy, discount rates and salary growth. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	See table below	Light purple – see key below

Firefighter's Pension Scheme Assumptions	Actuary Value	PwC range	Assessment
Duration of Liabilities	18 years	15 - 22 years	● [Light purple]
Discount rate	2.6%	2.55% - 2.60%	● [Light purple]
RPI inflation	3.6%	3.3%-3.95%	● [Light purple]
CPI inflation, pension increases and CARE revaluation	3.3%	3.05% - 3.45%	● [Light purple]
Salary growth	4.3%	1% > CPI	● [Light purple]
Life expectancy – Males currently aged 65	20.5	20.5 - 21.1	● [Blue]
Life expectancy – Males currently aged 45	21.8	21.7 – 22.3	● [Blue]
Life expectancy – Females currently aged 65	22.8	22.7 - 23.3	● [Blue]
Life expectancy – Females currently aged 45	24.3	24.2 – 24.8	● [Blue]

Conclusion

Our work has not identified any material issues in relation to the risk.

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Minimum revenue provision (£4,318k)	When capital expenditure is financed by debt, the Authority must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by Council Tax payers. Until 2007/08, the basis of the calculation for the MRP was specified in legislation. However, from 2007/08 onwards the statutory requirement is simply for local authorities to make a prudent level of provision, and the Government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The Authority's current method for setting the MRP charge is based on the depreciation method.	**Context** Before 2004, Whitehall issued UK Local Authorities with annual credit approvals, effectively setting a cap on each authority's borrowing. That system ended with the introduction of the prudential framework in 2004 which allowed Local Authorities to spend and borrow without approval. In recent months, the MHCLG published a policy paper which set out that they were "currently reviewing the statutory powers for capping borrowing and considering how and when we will apply these to protect local financial sustainability". It is clear then that the government is concerned about the financial sustainability of local authorities and so we have performed work around the minimum revenue provision (MRP) set by the authority to ensure not only that it complies why the agreed policy, but that the policy itself is reasonable to ensure the authority is able to repay borrowing in the long term. **Changes in MRP during 2021/22** There were no changes to the MRP policy or underlying assumptions during the year. **Findings and conclusion:** The MRP charge is an amount set by the Authority to repay debt. As at 31 March 2022, the Authority's debt was £24,750,000, all of which was owed to the Public Work Loans Board (PWLB). The opening Capital Financing Requirement for the Authority was £32.7m which represents the Authority's underlying need to borrow. The MRP charge for 2021/22 was £4,070,000, which represents 16% of the outstanding liability with PWLB or 12% of the Authority's underlying need to borrow. The loans taken out with PWLB are long term and need to be repaid between 20-30 years from when they were taken out. Typical capital investment each year is circa £3m and therefore, with the charge at over £4m, the Authority is incrementally reducing the Authority's underlying need to borrow by circa £1m a year. The Authority also has £13m of capital receipts available to finance capital investment in the future. These factors, alongside the Authority's reserves/capital strategy, inform our conclusion that the MRP charge set by the Authority is reasonable. For the avoidance of doubt, we are not recommending a change to the MRP approach, nor do we consider it inappropriate.	Light Purple – see key below

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property, Plant and Equipment: depreciation including useful life of capital equipment.	Buildings are depreciated in accordance with the valuers estimation of value/remaining life. Equipment including vehicles are depreciated based on standard lives and estimates from relevant managers and contract lengths where relevant. For existing assets the source data is the carrying value at the start of the year. For existing buildings this was provided by the valuer. For other existing assets it is the brought forward depreciated replacement cost. For new assets it is the purchase cost during the year. For buildings this is the revaluation performed at year end. The point estimate for depreciation is generated by the asset register based on the inputs of costs and expected lives for each asset. There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year.	As part of our work on depreciation two issues were identified, both of which relate to the fact your depreciation charge is incorrectly calculated: In the prior year we reported to you that there was an error in the way your asset register calculated depreciation for Buildings. Instead of using the Useful Economic Life (UEL) to calculate depreciation, the asset register was using the Useful Remaining Life (URL). This resulted in the depreciation charge in the prior year being overstated. The overstatement was not material. As part of our work this year, we have confirmed that management have updated the depreciation calculation to correctly use UEL rather that URL. In the prior year, we also communicated to you a second issue in relation to depreciation insofar as the UELs in your asset register did not agree to the UELs set by your valuer. As part of our work this year, we have confirmed that the UELs in your asset register reconcile to information provided by your valuer. Overall, based on the work we have performed including the results of our predictive analytical review, we are satisfied that management's accounting estimate for depreciation is reasonable.	Light Purple – see key below

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Annual Leave Provision (£1,269k)	An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that for taxation purposes holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.	In the prior year, we reported to you that the daily rate assumption used by management in the annual leave estimate was unreasonable. The assumption used by management was a daily rate based on 365. This was unreasonable because it included non-working days. For 2021-22 management have actioned our prior year recommendation and set the daily rate assumption based on working days. We are therefore satisfied that the underlying assumptions in management's estimate is reasonable.	Light Purple – see key below

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Audit Comments	Assessment
Asset under construction vs Prepayment judgement In 2021-22, management spent circa £1.4m on 10 Fire Appliances. Due to supply chain issues, the Fire Appliances were not delivered by 31 March 2022 and even at the time of the audit, these Fire Appliances remained under construction at the suppliers. Management accounted for the £1.4m payments to the supplier as an asset under construction in the draft financial statements.	**Auditor challenge:** We challenged management's judgement as to whether it was appropriate to account for the £1.4m payments as 'assets under construction' rather than a prepayment. In order for something to be accounted for as an 'asset under construction', the Authority must have control over an identifiable asset and the risks and rewards of holding the asset must have transferred from the supplier to the Authority. Given that the asset had not yet been delivered to the Authority, at prima facie, it would suggest the Authority does not yet have control nor the risk and rewards transferred. As a result, based on just invoice evidence alone, the £1.4m payment would appear to be a prepayment. The misstatement would therefore be an understatement of prepayments and an overstatement of PPE. This has no net impact on the reported position of the Authority – it is purely classification on the balance sheet. **Management response:** Management provided us with the contract with the supplier. Section 14.3 of the contract confirmed that where payments are made in stages, ownership and passing of title of the goods transfers to the contracting authority at the time of payment. It goes on to confirm that the supplier shall store the goods separately from all other goods so that it remains readily identifiable as belonging to the contracting authority. Based on the legal contract, management are therefore satisfied that there is an identifiable asset, one which they have the legal rights to and control over. **Auditor conclusion:** Based on the contractual evidence supplied by management, we are satisfied that their judgement in applying the accounting policy is reasonable.	Light Purple – see key below

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	Letter of representation has been requested from the PFCC
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Authority's banker. This permission was granted, and the requests were sent. These requests were returned with positive confirmations.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. There are no issues coming from this work that we need to report to you.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

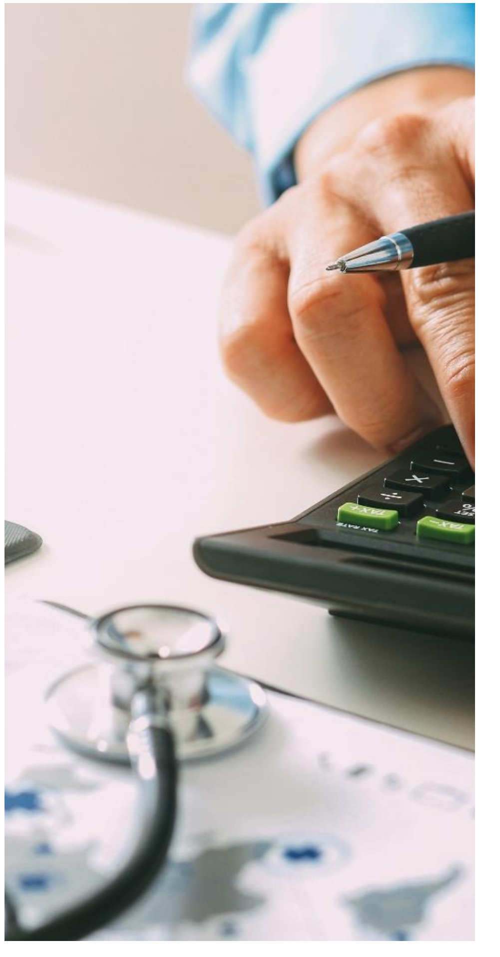
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work to date has not identified any inconsistencies. Subject to the completion of all outstanding work we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statements do not comply with disclosure requirements set out in CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits, • if we have applied any of our statutory powers or duties. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA audit instructions. This work cannot commence until guidance has been received from the NAO, which is still awaited at the time of writing.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit, as detailed in our audit report, until we have been able to complete our work on the WGA (pending the release of NAO guidance) and we have completed our work in respect of the arrangements to support value for money.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Our VFM work is in progress. Our detailed commentary will be set out in our separate Auditor's Annual Report. We are satisfied from the work we have undertaken to date that no matters have been identified that would impact on our proposed audit opinion on the financial statements.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services charged from the beginning of the financial year to date were identified.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	**Retrospective approval** The design of management's internal control around journal authorisation has been found to be deficient insofar as journals are approved after the journal has been posted to the ledger. As such this control can only detect and correct errors rather than prevent them from occurring. This is not a change from the prior year and has been the design of the control for several years.	Management should consider making journal authorisation a prospective control rather than a retrospective control. This is best practice and is often implemented by automated workflow in the accounting system.
Medium	**Delayed approval** Journals posted to the ledger should be approved within 1 week of them being posted as part of a weekly control. Our journals work identified that for 7 out of 33 journals tested, the journal was approved after this period. There is therefore non-compliance in the timeliness of journal authorisation.	Management should ensure all journals are approved within the 1 week timeframe. This will require management to put in place arrangements to ensure the control continues to operate when people take annual leave.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	**Deleted journal transactions** As part of our work we identified that your system 'Dream' allows users to delete transactions. This is unusual as a typical accounting system doesn't allow users to delete transactions. If a transaction posted to the ledger contained an error, then a new transactions is posted to reverse the impact. In doing so, it retains an audit trail within the ledger. By allowing transactions to be deleted from the ledger, this audit trail is not kept intact. We have performed audit work on the listing of transactions deleted during the financial period. This has not identified any issues which we need to bring to your attention. Nonetheless, we are raising to you the control weakness in your system in that it allows users to delete transactions.	The Authority should perform a risk assessment over the journals control environment and put in place appropriate arrangements to mitigate or resolve the control risk present.
Medium	**Related Party Disclosure – Declarations** As part of our related party transactions testing, we noted that the Authority had not received a signed declaration from a Director that was in post as at 31 March 2022. Without a signed declaration, management had insufficient evidence to conclude that the related party transactions note in the accounts was complete. Following our challenge, in August 2022, management requested that the director returned a signed declaration form. This form confirmed that the director had no interests and therefore no adjustment was required to the financial statements.	The Authority should ensure they request and receive signed declarations from all individuals identified as related parties under IAS 24.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	**House sale agreements** As part of our testing of disposals, we selected 10 asset sales for testing. Management were unable to provide us with contractual sales agreements for 5 out of 10 of the samples. In order to obtain sufficient appropriate evidence, alterative procedures were performed. Management agreed to provide us with land registry information for each of the 5 assets to prove the legal right of ownership transferred during the accounting period. No issues were identified from this testing. Whilst we were able to obtain sufficient appropriate evidence that the accounts are free from material misstatement, the fact that the Authority did not have the contractual sale agreements is a control deficiency.	The Authority should ensure it obtains and retains key contractual information pertaining to asset sales.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Authority's 2020-21 financial statements, which resulted in recommendations being reported in our 2020-21 Audit Findings report. We have followed up on the implementation of our recommendations and note that one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Prior year issue:** As part of our work on the journal I.T. control environment we identified people who had both super user access and financial processing duties. These two roles are incompatible and flag as a segregation of duties issue. We have performed additional work to assurance ourselves that this incompatibility has not resulted in a material issue in your statement of accounts. **Prior year recommendation:** Review systems access to your financial systems and ensure super user access is restricted to appropriate persons.	Management have made progress against this finding during the year. When the issue was first identified there were three superusers, this was reduced to two in 2020-21. During 2021-22, one of the super users has been transferred to the IT team and now has no processing duties. This therefore leaves one person within the finance team who has superuser access. This person *can* process transactions but it is not part of they role. Whilst the control deficiency still persists, the risk has been substantially reduced and management are comfortable with it as designed. We however continued to report it for transparency.
✓	Depreciation of Buildings – Fixed Asset Register calculation As part of our assessment of management's depreciation estimate, we identified that the fixed asset register has been calculating depreciation on buildings incorrectly. Instead of using the Useful Economic Life (UEL) in the calculation, it has been using the Useful Remaining Life (URL). In doing so, the depreciation being charged to the accounts is higher than it should be. Management has not calculated the revised depreciation charge using accurate UELs. We have performed a high level assessment to identify the indicative misstatement. The misstatement has been reported to you as an 'unadjusted misstatement' see appendix C. **Prior year recommendation:** Management should update the fixed asset register system to ensure it calculates depreciation correctly in line with the accounting policy and IAS 16.	Our work on depreciation this year confirms that depreciation has been calculated on the correct basis i.e. UELs.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Depreciation of Buildings – UEL assumption As part of our assessment of management's depreciation estimate, we identified that the UELs for Buildings per the fixed asset register did not agree to the UELs provided by your Valuer. In most cases the UELs per your fixed asset register were higher (longer) than the UELs provided to your valuer. This meant that the depreciation being charged to the accounts is understated. Management has not calculated the revised depreciation charge using accurate UELs. We have performed a high level assessment to identify the indicative misstatement. This has been reported to you as an 'unadjusted misstatement' see appendix C. **Prior year recommendation:** Management should ensure the fixed asset register is updated to reflect the most up to date UELs, as set out in the valuer's report, on receipt of each valuation report. Depreciation should be calculated on the basis of this most up to date information.	Based on the work performed in the current year we are satisfied that the asset register has been updated based on information from your valuer.
✓	Annual leave – working days assumption From our review of the holiday pay accrual we identified that the daily rate assumption of 365 is not reasonable as it includes non-working days. We have calculated the impact of this assumption by using 253 days, which is the number of working days in 20/21. The impact on the estimate is an understatement of £375k. We have reported this misstatement to you as an 'unadjusted misstatement' see appendix C. Note – this is not a change of methodology in year and has been the method applied by the Authority for several years. **Prior year recommendation:** Management should review and update the working day assumption in their holiday pay assumption to arrive at a more accurate estimation of the liability.	For 2021-22 management have actioned our prior year recommendation and set the daily rate assumption based on working days. We are therefore satisfied that the underlying assumptions in management's estimate is reasonable.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusted misstatements as part of our audit.

C. Audit Adjustments – Unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021-22 audit which have not been made within the final set of financial statements. The PFCC is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Fees and charges revenue – extrapolation of sample testing We found two errors in fees and charges: 1. Overstatement of £22 on a sample item due to charges in relation to the sale not being netted off against the sale price. 2. The Authority recognised the Apprenticeship allowance as income rather than netting it off against the expense. The error on the sample item was £1,250. The errors identified have been extrapolated over the population being tested. The projected misstatement is £92k which is not material and therefore we have assurance that the fees and charges are materially accurate in the accounts. As the projected misstatement exceeds our triviality threshold, we are required to report this to you as an unadjusted misstatement.	Fees and charges 92 Expenditure (92)	Nil	Nil	Not material - extrapolated

C. Audit Adjustments – Unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Expenditure sample testing As part of our testing of other expenditure, we identified two errors in our sample. • The first related to an item of expense (mileage) that related to the prior period of £180.45. This was not accrued for in 2020/21 and so expenditure in 2021/22 is overstated. • The second relates to an accrual that management incorrectly posted twice. The impact of this is that expenditure is overstated by £14,473 We have evaluated the impact of these errors by projecting the error rate in our sample over the sampled population. This extrapolated a misstatement of £366k. As the extrapolated misstatement is below performance materiality, we are satisfied that we have sufficient appropriate evidence that there is not a material misstatement in the accounts. However, because the extrapolated misstatement exceeds triviality we are required to report this to you. Management have decided not to adjust the accounts because the misstatement is a projection and not material.	Operating expense (366)	Creditors 366	(366)	Not material - extrapolated
Expenditure sample testing As part of our testing of other expenditure, we identified a debit to expenditure relating to a repayments of NNDR income. Whilst we are satisfied that the repayment is appropriate, it has been recorded as an increase to expenditure rather than a reduction of revenue. This has no net impact on the bottom line but does serve to overstate income and expense in the CIES. We have quantified the misstatement as £190k	Operating expense (190) Revenue 190	Nil	Nil	Not material

C. Audit Adjustments – Unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Grants testing misstatement We found an issue in respect to "Small Business Rate Relief" under Non Specific Grant Income. In note 22 the figure for small business rate relief is shown as £1,542k however we have only received evidence for £1,404k leaving a £138k variance. There are two separate errors here, one is a misclassification of £104k. The other is a genuine error to the bottom line of £34k. See below for the two adjustments: **Misclassification in note 22** Dr Small Business Rate Relief £104k – non specific grant income Cr Pension admin grant £104k – specific grant income **Bottom line error** Dr Small Business Rate Relief £34k – non specific grant income Cr Grants RIA £34k	Taxation and non specific grant income (revenue) 34	Grants received in advance (34)	34	Not material

C. Audit Adjustments – Unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Expenditure completeness testing As part of our completeness testing of creditors, we identified several invoices put onto the Accounts Payable system after year end that related to capital additions that were received before 31 March 2022. The total aggregated amount of these invoices were £245k. Therefore, liabilities is understated by £245k and PPE is understated by £245k. As the misstatement is not material, management have decided not to adjust the accounts and therefore we are reporting this as an unadjusted misstatement	Nil	PPE 245 Creditors (245)	Nil	Not material
Asset Held for Sale revaluation: In the draft financial statements, management processed a £101k upward movement through the revaluation reserve in relation to several Assets Held for Sale (AHFS). Under the relevant accounting standard, AHFS are accounted for at the lower of fair value less cost to sale and carrying value. Despite receiving a valuation report demonstrating that fair value had increased, this adjustment should not have been processed. The misstatement in the accounts is therefore that AHFS are overstated by £101k and the revaluation reserve is overstated by £101k. As the error is not material, there is no impact on our Audit Opinion.		AHFS (101) Revaluation reserve 101		Not material

C. Audit Adjustments – Unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Workshop GIA difference: As part of our testing on revaluations we performed procedures that recalculated assets values based on Gross Internal Area (GIA) information and rental figures per square foot. For one of the samples, the GIA was different by 4% which resulted in a non-trivial non-material variance of £92k. As the difference exceed triviality we are reporting it to you but it is important to note that this is not a bona fide misstatement, but rather a difference between our calculation and our valuers. The difference of all of our other sampled items was significantly below trivial.	Expenditure 92	PPE (92)	92	Not material

C. Audit Adjustments – Unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Understatement of scheme assets on LGPS scheme: As part of our work on the net pension liability, we obtain assurances via a letter from the auditor of the Essex County Council Pension Fund. In their letter to us they confirmed that there was a difference between the estimated fund balances sent to the actuary and the fund balances on the pension fund's net asset statement. To be clear, the Pension Fund is responsible for submitted estimated fund balances to the actuary. Essex Fire has no part to play in this process. Total scheme assets in the submission to the actuary was £9,564,617k and the figure audited by the pension fund auditor was £81m higher at £9,645,581k. The difference is a result of timing. The submission to the actuary is done at an earlier time than the accounts are finalised by the Pension Fund. This means there is a greater level of estimation in the figures going to the actuary which results in a slight difference. To put into context, the £81m difference represents less than a 1% variance. This difference was not material to the pension fund and so the pension fund did not request the actuary to update their IAS 19 report. We performed work to assess whether this difference is material to the financial statements of Essex Fire. Essex Fire's share of total scheme assets is 0.86% and so the understatement in your financial statements has been calculated as £980k. As the misstatement is not material, management have decided not to request an updated actuarial report to adjust the accounts. As the amount is in excess of trivial, we are reporting this difference to you as an unadjusted misstatement.	Other Comprehensive Income (980)	Net Pension Liability 980	(980)	Not material
Overall impact	(1,220)	1,220	(1,220)	Overall impact is less than materiality

C. Audit Adjustments – misclassification and disclosure changes

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure changes or issue	Detail	Auditor recommendations	Adjustment agreed?
£1,495k of debtors misclassified	We noted that "Projected S31 grant relating to NNDR collection fund deficit" amounting to £1,495,231 is classified in the accounts as debtors with 'Other entities and individuals' but this should be classified as debtor under "Central Government Bodies". This is a classification error within the note and has not impact on the net reported position of the Authority. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
Disclosure misstatements in note 18.2 (Capital Adjustment Account)	The figures for depreciation and the carrying amount of non-current assets were misstated in the draft financial statements. These have been updated to the correct amount as set out below: • Charges for depreciation will change from (6,466k) to (4,307k) • Carrying amount of NCA will move from 1,062k to 3,270k **Management have made this adjustment to the final accounts. This has no net impact on the reported deficit.**	To amend the accounts accordingly	✓
Senior Officer Remuneration - £29k transaction.	As part of our work on Related Party Transactions, our challenge of management discovered a transaction between Jo Turton and Essex Fire that had not been disclosed in the draft financial statements. During the year, Jo purchased a car from Essex Fire for £29,000. Under the requirements of IAS 24 this transaction must be disclosed in the accounts. Management have updated the final accounts to include disclosure of this transaction in the senior officer remuneration note. Audit work has been performed to assess whether this transaction was carried out at arm's length and that price the vehicle was sold at represented fair value. This audit work identified no issues in both regards. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure changes or issue	Detail	Auditor recommendations	Adjustment agreed?
RPT - EFA Trading	We have agreed with management a revision to the narrative disclosure of EFA Trading LTD as a related party. This is to ensure the disclosure is clear to the reader and meets the requirements of IAS 24. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
RPT - PFCC	We have agreed with management a revision to the narrative disclosure of the PFCC as a related party. This is to ensure the disclosure is clear to the reader and meets the requirements of IAS 24. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
Senior Officer Remuneration - £29k transaction.	As part of our work on Related Party Transactions, our challenge of management discovered a transaction between Jo Turton and Essex Fire that had not been disclosed in the draft financial statements. During the year, Jo purchased a car from Essex Fire for £29,000. Under the requirements of IAS 24 this transaction must be disclosed in the accounts. Management have updated the final accounts to include disclosure of this transaction in the senior officer remuneration note. Audit work has been performed to assess whether this transaction was carried out at arm's length and that price the vehicle was sold at represented fair value. This audit work identified no issues in both regards. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure changes or issue	Detail	Auditor recommendations	Adjustment agreed?
Cashflow – rounding differences	In the draft financial statements, the cashflow statement includes a line for 'Other non-cash movements' for £7k. This is essentially to account for rounding variances. We have agreed with management to remove this line and rebalance the cashflow correctly in individual lines for the rounding differences. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
Cash Flow Statement – financing activities	There were two trivial amendments to the main cashflow statement as detailed below: • The proceeds from the sale of assets has moved from 3,532 to 3,530. • Purchase of assets has moved from 2,893 to 2,900 These adjustments net each other off and so have no net impact on the bottom cash position reported. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
Note 9 – Assets Held for Sale	Assets held for sale per the balance sheet is £1,445,000. This reconciled to the fixed asset register and the valuation report. In note 13, the closing balance of assets held for sale was £1,343,000 and so there was a £102,000 variance to the balance sheet. This disclosure misstatement was as a result of management not disclosing the £102,000 net upward movement in revaluation in note 13. Once added, the closing balance of £1,445,000 reconciles to the balance sheet. This is a purely disclosure misstatement in note 13. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure changes or issue	Detail	Auditor recommendations	Adjustment agreed?
Estimation uncertainty note - Depreciation	We have agreed with management an improvement to the estimation uncertainty note in relation to depreciation and useful economic lives. The improved disclosures provides the reader with a better understanding as to how management set the useful economic lives. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
Note 24 – Capital Expenditure and Capital Financing Note	After the draft accounts were published, management identified an error in Note 24 on the capital investment line. The error arose because management had not accounted for the reclassification of £145k of assets under construction to revenue. This would mean that the net figure of £3,132k would be shown resulting in a closing capital financing requirement of £31,733k. We are satisfied that the correct of this error, despite being non-material, is appropriate. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
Capital Commitments	In accordance with the CIPFA Code, management are required to disclose the value of capital commitments as at 31 March. This was disclosed in the narrative report but it was not disclosed in the financial statements. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
Note 7 and the MIRS (£120k)	During 2021-22, the Authority made an additional £120k contribution to finance capital from revenue. This is a transaction the Authority is permitted to make and it is disclosed correctly in note 24. There is however a disclosure misstatement in both the MIRS and note 7 in respect of this £120k. Firstly, the MIRS figure for adjustments between accounting and funding basis should agree to note 7. It does not agree by £120k. This is because in note 7, the additional voluntary contribution is shown as coming from earmarked reserves which is incorrect. This has no net impact on the closing balance of the GF and Earmarked reserves. **Management have updated the accounts to correctly present the £120k in note 7 and the MIRS.**	To amend the accounts accordingly	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure changes or issue	Detail	Auditor recommendations	Adjustment agreed?
Note 10 – Financial instruments – Creditors misstatement	As part of our work on financial instruments, we identified that management's disclosure for financial liabilities was understated by £2,642k. This is because a single TB code was omitted from management's analysis. The figure for financial liabilities in the final accounts will be £3,588k (up from £946k in the draft accounts). Note, this has no impact on the reported position of the Authority, the misstatement is purely presentational within note 10 **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
Note 10 – Financial instruments – Debtors misstatement	As part of our work on financial instruments, we identified that management's disclosure for financial assets was understated by £565k. This is because accrued income was omitted from management's analysis. The figure for financial assets in the final accounts will be £883k (up from £318k in the draft accounts). Note, this has no impact on the reported position of the Authority, the misstatement is purely presentational within note 10 **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓
CIES - Narrative	As part of our work, we identified that the figures quoted in the narrative below the CIES pertaining to the collection fund deficit were disclosed on an inconsistent basis between the current and prior year. Management have revised the narrative to better present to the reader of the accounts the current year position such that it is consistent with prior year disclosures. Note – this has no impact on the net reported position of the entity, it is purely a narrative disclosure. **Management have made this adjustment to the final accounts.**	To amend the accounts accordingly	✓

D. Fees

We set out below our proposed fees charged for the audit. There are no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
PFCCFRA Audit (excluding VAT)	£44,980	TBC
Total audit fees (excluding VAT)	**£44,980**	**TBC**

Once all work has been completed on the audit including the VFM work and the additional work required in respect of deleted journals, we will assess the need for any changes to the proposed fees. This will be discussed with management.

The proposed fee reconciles to the External Audit Fee note in the financial statements for 2021-22.

E. Audit opinion - [to follow]

We anticipate we will provide the Authority with an unmodified audit report.

F. Audit letter in respect of delayed VFM work

Roger Hirst

Police, Fire and Crime Commissioner for Essex

Kelvedon Park,

Rivenhall, Witham,

Essex, CM8 3HB

23 September 2022

Dear Roger

Under the 2021 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many opinions as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 December 2022.

For the purposes of compliance with the 2021 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Paul Grady

Paul Grady
Key Audit Partner

Grant Thornton

grantthornton.co.uk