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

Year ended 31 March 2020

October 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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 2020 for those charged with governance

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority. Over the last four months, the Authority has supported other emergency services and public bodies, including diverting capacity.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, however given the unprecedented challenge on authorities an amendment was made to the Accounts and Audit Regulations 2015 to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 14 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 5.

Restrictions for non-essential travel have meant Authority staff and audit staff have had to adapt to remote working arrangements. Your finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch your finance team run the required reports to gain assurance over the completeness and accuracy of information produced by you. We have made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries has taken longer than face to face discussion. Regular meetings were held with finance staff to highlight key outstanding issues and findings to date. We have used a query log to track and resolve outstanding items, ensuring that the process was as smooth as possible.

The audit has progressed to plan and subject to completion of the outstanding items set out on page 5 we aim to be in a position to issue the opinion significantly in advance of the statutory deadline of 30 November 2020.

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, the entity's (and where relevant, the group's) financial statements:

- give a true and fair view of the financial position of the entity and the entity'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 the 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.

We received your final signed unaudited accounts in early July and our audit work has been carried out remotely during July to September. Prior to that that you had shared earlier drafts of your work-in-progress financial statements, which enabled us to begin some limited substantive work. Our findings are summarised on the following pages.

Management has made one adjustment which impacts the reported financial position. Following the publication of HMT's Consultation of the McCloud remedy, management took the view that this represented a post balance sheet adjusting event. As a result, management commissioned an updated actuarial valuation based on revised assumptions. This new valuation resulted in a material difference in the net firefighters' pension fund of £2,599,000. More details are set out in Appendix C.

We also identified a non-material prior period error in the valuation of one asset. The error was caused by a casting error in your Valuer's schedule. The error is not material and has been superseded by the current year valuation. Further details are set out in Appendix C.

We have also raised a recommendation for management in relation to the documentation and timeliness of decision making pertaining to earmarked reserves. This is set out in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work complete and subject to the outstanding matters detailed on page 5, there are no matters of which we are aware that would require qualification of our audit opinion for the Authority's financial statements.

Our anticipated audit report opinion will be unqualified including two Emphasis of Matter paragraphs, highlighting both the PPE valuation material uncertainty and LGPS net pension fund liability material uncertainty as a result of the Covid-19 pandemic. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declarations above does not mean that the audit opinion is qualified or that the respective valuations cannot be relied upon. It is included in order to be clear and transparent, that – in the current extraordinary circumstances – less certainty can be attached to the two valuations than would otherwise be the case

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of both organisations.

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 2020 for those charged with governance

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that the Authority does have proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion.
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 expect to be able to certify the completion of the audits when we give our audit opinion, subject to any residual requirements in respect of the Whole of Government Accounts.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Headlines

Financial statements continued

Our work is subject to the following closing procedures which necessarily take place at the end of the audit:

- Undertaking specified procedures on behalf of the Whole of Government Accounts group auditor (worked required to issue the certificate but does not prevent us from issuing our audit opinion on the financial statements)
- Finalisation of work in respect of subsequent events
- Final senior management and quality reviews and clearance of any queries that may arise from this final process
- Agreement of your management representation letters
- Receipt and review of the final set of approved financial statements
- Receipt and review of the final approved annual governance statements
- Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.

These matters have now been concluded and we propose issuing an unqualified audit opinion on the Authority's financial statements.

Summary

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 had to alter our audit plan, as communicated to the the PFCC on the 14 May 2020, to reflect our response to the Covid-19 pandemic and its impact on the both Authority's financial statements and value for money arrangements. The addendum was presented to the Audit Committee on 26 June 2020.

Conclusion

Our work is nearing completion and, subject to the outstanding matters detailed on page 5, there are no matters of which we are aware that would require qualification of our audit opinion for the Authority's financial statements.

Our anticipated audit report opinion will be unqualified including two Emphasis of Matter paragraphs, highlighting both the PPE valuation material uncertainty and LGPS net pension fund liability material uncertainty as a result of the Covid-19 pandemic.

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.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for the Authority.

	Authority Amount (£)
Materiality for the financial statements	• 1,200,000
Performance materiality	• 900,000
Trivial matters	• 60,000

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**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.	**Auditor commentary** 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** There have been no changes to the assessment above as reported in our Audit Plan. Our work has not identified any material issues in relation to revenue recognition.
2	**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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which is one of the most significant assessed risks of material misstatement.	**Auditor commentary** 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** In the same way as in the prior year, our work on journals we identified that three 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 2019/20 have been approved through this super user access. **Conclusion** Our work has not identified any further material issues in relation to this risk.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Covid– 19** The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to the risk highlighted in the Audit Plan addendum, we have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the PFCC's property valuation expert and the impact of the HMT consultation on the pension fund valuation. • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The Authority's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the property sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. In addition, the valuer for the Local Government Pension Scheme's property investment assets declared material valuation uncertainties around the valuation of these investments on the same basis Management has agreed to disclose these material uncertainties in Note 6 to the Authority's financial statements. These disclosures will be referred to in our auditor's reports for the Police, Fire and Crime Commissioner for Essex Fire and Rescue Authority in an emphasis of matter paragraph. These references do not constitute qualifications of the audit opinion. **Conclusion** Our work has not identified any further material issues in relation to this risk.

Significant findings – audit risks

	Risks identified in our Audit Plan	Relates to	Commentary
4	**Valuation of land and buildings** Following an audit recommendation we raised in 2018-19, management have revised the accounting policy in relation to the revaluation of land and buildings. Instead of assets being revalued on a five-yearly basis, each asset will be subject to revaluation each year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£126 million at prior year end) 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.	**PFCC and Group**	**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; • 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; and • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register. • 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. As discussed under 'Covid-19' above, the Authority's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the property sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management have disclosed this uncertainty in Note 6 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. **Conclusion** Our work has not identified any further material issues in relation to this risk.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
5	**Valuation of 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 (£743 million), and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk of material misstatement.	**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 group's 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 group's pension fund valuation; • assessed the accuracy and completeness of the information provided by the group 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; • 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; and • obtained assurances from the auditor of Essex County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. As discussed under 'Covid-19' above, the valuer for the Local Government Pension Scheme's pooled property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management has agreed to disclose this material uncertainty in Note 6 to the Authority's financial statements. This disclosure will be referred to in our auditor's report for the Authority in an emphasis of matter paragraph. This reference does not constitute a qualification of the audit opinion. **Conclusion** Our work has not identified any further material issues in relation to this risk.

Other Risks

This section provides commentary on new issues and risks which were identified during the course of the audit that are not considered to be significant risks.

	Issue	Commentary	
1	**IFRS 16 implementation has been delayed by one year** Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	• In the draft financial statements, there was no disclosure of IFRS 16 in note 3 ‘Accounting standards that have been issued but not adopted’. • The issue was raised to management who has since updated note 3 to include disclosure on IFRS 16. • The revised disclosure has been reviewed and we are satisfied that it contains the required minimum disclosures • We reviewed management’s process for compiling information about leases to ensure completeness and found these to be adequate. • The statement that the impact of the revised accounting standard is not expected to be material for the Authority is reasonable in the context of the Authority’s current and expected leasing portfolio.	**Auditor view** • We are satisfied that the disclosure made by management is fairly stated and reflects the best estimate based on available information. • We consider key judgements and assumptions made by management in the production of the note to be reasonable. • Management has adequately reflected the estimation uncertainty contained within the disclosure. This reflects that activity and decisions taken during the course of 2020/2021 could have an impact on what the actual changes to the financial statements will be on adoption on the 01 April 2021.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £126 million	Land and buildings comprises £116m 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 (£10m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. In line with RICS guidance, the Authority's valuer disclosed a material uncertainty in the valuation of the Authority's land and buildings at 31 March 2020 as a result of Covid-19. The Authority has included disclosures on this issue in Note 6.	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 • All your land and buildings have been appropriately valued by the instructed valuer as at 31 March. Management have obtained sufficient evidence that the carrying value of all of your land and building as at 31 March 2020 is not materially different to the current value. **Conclusion** No further material issues have been identified which are required to be reported to those charged with governance.	Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability **LGPS: £26m** **Firefighters' Officer Pension Scheme: £718m**	The Authority's total net pension liability at 31 March 2020 is £743 million (PY £799 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. 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. In the draft financial statements, there has been a £56m net actuarial gain during 2019/20, of which a charge of £15m has impacted the Comprehensive Income and Expenditure Statement. The remaining £71m has increased the Authority's unusable reserves.	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	● Green

Local Government Pension Scheme Assumptions	Actuary Value	PwC range	Assessment
Duration of Liabilities	22 years	15 – 22 years	●
Discount rate	2.35%	2.35%	●
RPI inflation	2.65%	2.65% - 2.80%	●
CPI inflation, pension increases and CARE revaluation	1.85%	1.85% - 1.95%	●
Salary growth	2.85%	1.00% > CPI	●
Life expectancy – Males currently aged 65	21.8	21.4 – 23.3	●
Life expectancy – Males currently aged 45	23.2	22.8 – 24.7	●
Life expectancy – Females currently aged 65	23.7	23.7 – 24.7	●
Life expectancy – Females currently aged 45	25.2	25.2 – 26.2	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Audit Comments	Assessment
Net pension liability **LGPS: £26m**	• Two of the assumptions in the FFPS fell outside of the range set by our auditor's expert. In both cases, the differences are as a result of local factors. In both cases we have estimated the potential impact on the liability for difference and confirmed that individually and in aggregate they are not material. Based on this, we are satisfied that the estimate is reasonable.	**Green**

Firefighters' Officer Pension Scheme: £718m

Firefighter's Pension Scheme Assumptions	Actuary Value	PwC range	Assessment
Duration of Liabilities	19 years	15-22 years	
Discount rate	2.35%	2.35%	
RPI inflation	2.70%	2.65% - 2.8%	
CPI inflation, pension increases and CARE revaluation	1.9%	1.85% - 1.95%	
Salary growth	3.40%	3.00 -4.00%	
Life expectancy – Males currently aged 65	21.0	20.8 – 21.9	
Life expectancy – Males currently aged 45	22.7	22.6 – 23.6	
Life expectancy – Females currently aged 65	23.1	23.2 – 24.0	
Life expectancy – Females currently aged 45	24.9	25.1 – 25.8	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Audit Comments	Assessment
Net pension liability **LGPS: £26m** **Firefighters' Officer Pension Scheme: £718m**	**Subsequent event - Impact of HMT Consultation on police pension scheme** **Background** On 16 July 2020 HM Treasury published their Public service pension schemes consultation which contained the proposed remedy regarding the McCloud/Sargeant remedy. Included in this proposal are details of which members are eligible for remedy. In particular, those who were members of a public sector pension scheme on or before 31 March 2012 and on or after 1 April 2015 will be in scope to choose between their 2015 Scheme or legacy scheme benefits for the period April 2015 to April 2022. The approach used when calculating the past service cost in respect of McCloud/Sargeant in 2018/19 pension liabilities and the current service cost in respect of McCloud/Sargeant in 2019/20 accounts was to assume that all members who were in service on 1 April 2015 would be eligible. At the point of producing these estimates, details of the case and the potential form of the eventual remedy were still unclear, and it was necessary to make assumptions for many of the details. Therefore, when compared to the eligibility set out in HMT's consultation document, the approach adopted by actuaries in assessing the impact of McCloud/Sargeant would overstate the potential liability. **Management's judgement:** Events after the reporting date are required to be considered under IAS 10. IAS 10 states that there are two types of events: • Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and • Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period). On 30 September 20, CIPFA issued a supplement to CIPFA Bulletin 05, which stated that the issuance of the HMT consultation would be considered an adjusting event in accordance with para 3.8.2.1 (a) of the Code. In light of this further guidance from CIPFA, management have reviewed the accounting treatment and have concluded that the impact of the HMT Consultation should be treated as an adjusting event. This is because the HMT Consultation is considered to provide more information pertaining to assumptions linked to an estimate, the conditions of which existed at the end of the reporting position.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Audit Comments	Assessment
Net pension liability **LGPS: £26m** **Firefighters' Officer Pension Scheme: £718m**	**Subsequent event - Impact of HMT Consultation on police pension scheme** **Auditor's consideration:** Following receipt of management's revised judgement, we undertook work to assess its reasonableness. This involved communication with GT's internal actuarial expert as well as our internal audit technical team. Based on this work we are satisfied that management's judgement is reasonable. Additional work was then performed to ensure the estimate produced by management's actuarial expert based on the revised eligibility criteria assumption was reasonable. No material issues were identified as part of this work. **Impact on the accounts:** Management requested a revised report from its actuary which reflects the HMT consultation in the assumptions which underpin the estimates for the pension liability and service costs in line with IAS 19. The impact of this change in the assumptions was to reduce the pension liability by £2,599m. This adjustment has been to the final accounts, see appendix C for details. We are satisfied that adequate disclosures in line with IAS 10 have been made.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary
1	Significant judgement in relation to group relationship with Essex Fire	**Management's judgement:** In preparing the accounts, management made a critical judgement not to consolidate the EFA Trading Limited on the basis that it is immaterial. This judgement is disclosed in the critical judgements note. **Auditor's assessment:** In response we have obtained and reviewed: • Management's formal judgement • EFA Limited bank statement • EFA Limited prior year audited accounts and the current year draft accounts **Conclusion:** We have reviewed the reasonableness of management's judgement not to consolidate the EFA and consider it appropriate.

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary
2	Earmarked reserves profile	In July, the Authority produced final accounts, subject to audit, with reserves per the balance sheet and movement in reserves statement (MIRS) as follows: • General fund: £8.1m • Earmarked reserves: £5.9m The accounts were signed as authorised for issue by the CFO, presented to and recommended for approval by the Audit Committee and published on the Authority's website in compliance with the legislative and statutory requirements for public inspection set out in the Local Audit and Accountability Act 2014. In October 2020, management informed us they were amending the reserves balances in the financial statements 2019/20 to the following: • General fund: £3.4m • Earmarked reserves: £10.5m This reflected an additional movement of £4.6m from general fund to earmarked reserves. We challenged management over the proposed amendment, in particular raising a challenge as to whether this was a 2020/21 decision, rather than a 2019/20 decision (given we were notified of it in October 2020), and asking for the documentary evidence which recorded the making of these earmarking decisions. Earmarking general fund reserves for specific uses is a policy decision reserved to the PFCC. In response management informed us that they had signalled an intention to revisit the earmarking of reserves in their medium term financial plan and had mentioned this at the audit committee which recommended the accounts for approval in July. We accept the intention to reconsider the levels of reserves had been previously stated. However, we are concerned that the decision to amend the accounts came so late in the following financial year, and was only reflected after the statutory public inspection period had closed. We raise a control finding in this respect.

Significant findings – matters discussed with management

	Significant matter	Commentary
2	Earmarked reserves profile (continued)	In addition, management were unable to provide documentary evidence that the decision had ever been made as no record of the decision was documented. As this was a decision that would have been made by the PFCC the Engagement Lead discussed the matter with the PFCC directly on 22 October 2020. The PFCC confirmed: • He had made a previous decision to earmark an additional £4.6m of general fund reserves for specific purposes • The amended accounts accurately reflected previous earmarking decisions he had made, but which had not been documented, and which had been omitted from the accounts submitted for audit, recommended for approval by the audit committee and published on the website under the Authority's statutory publication and inspection requirements The Authority accepted there was a 'learning point' regarding the documentation of decisions, and we also raise a control point in this respect. **Conclusion** Notwithstanding the control points mentioned above and the concerns raised over the timing of the amendment and the sufficiency of documentation of the earmarking policy decisions made, we have been provided with direct confirmation from the PFCC, as decision maker, that the accounts reflect decisions he had previously made. As such, we accept the accounts, as corrected, are now materially accurate and reflect the decisions made in respect of the 2019/20 year regarding the earmarking of general fund reserves for specific purposes. We are satisfied the purposes for which funds have been earmarked are in line with our existing understanding of the Authority's overall reserves strategy intentions and intended investment decisions (for example, Learning and Development and Transformation objectives), and are consistent with our understanding of the Authority's strategic plans.

Significant findings - Going concern

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).

Going concern commentary

Management's assessment process	Auditor commentary
Authority The Statement of Accounts has been prepared on a going concern basis, on the assumption that the functions of PFCC will continue in operational existence for the foreseeable future.	A balanced budget for 2020/2021, was approved on 6th February 2020. The approved budget included a £1.6m funding gap which is planned to be met by the use of reserves. The Authority recognises that the use of reserves to meet 'business as usual' service need is not desirable. In the 2020-2024 Medium Term Financial Plan (MTFP), it sets out an ambition by 2021-2022 to stop utilising reserves to plug funding gaps, instead, funding gaps are to be met by efficiencies and savings. We have reviewed the reasonableness of assumptions underpinning the budget and consider them to be reasonable. In late March 2020 the global pandemic of Covid-19 was announced affecting the economy and public sector bodies. The short term effects of the global pandemic has resulted in increased costs for public service bodies to meet the needs of the public and uncertainty over future funding as the government looks to support a decline in the economy. This therefore affects the Medium Term Financial Plan (MTFP) forecasted by the Authority. The assumptions underpinning the budget forecast in the short term are now uncertain and it is likely that there will be a reduction in funding from the Home Office and unlikely that precepts and business rates funding will be as high as originally budgeted. Management has therefore begun work to consider several scenarios and update their MTFP to reflect the increased uncertainty as well as the potential reductions in revenue streams. Whilst this will increase the cumulative budget gap by 2024/2025 which currently stands at £4.3m, we are satisfied this does not result in a material uncertainty in the 12 months from the date of the audit opinion given the level of useable general reserves and cash available. In arriving at this view, we have assessed the reasonableness of the assumptions underlying this forecast in light of the global pandemic. We also reviewed management's cashflow forecast up to 31 October 2021. The Authority holds C£14m of useable revenue reserves as at 31 March 2020 (£13.6m as at 31 March 2019). Based on our review of budget assumptions and cashflow forecasts prepared by management we are satisfied that the Authority has sufficient useable reserves to meet expected funding gaps in the next 12 months.
Concluding comments	**Auditor commentary**
We have concluded that no material uncertainty which would cast doubt on the ability of either entity to continue as a going concern exists and the going concern assumption adopted by management is appropriate.	Based on the audit work performed over the going concern assumption adopted by management, we are satisfied that it remains appropriate for Authority to prepare accounts on a going concern basis as at 31 March 2020. The Authority have a reasonable expectation that the services it provides will continue for the foreseeable future. For this reason we considerate it appropriate for the Authority to continue to adopt the going concern basis in preparing the financial statements. We do not consider there to be a material uncertainty which would cast doubt on the ability of the entity to continue as a going concern.

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
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Authority. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**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.
4	**Written representations**	• A letter of representation has been requested from the Authority
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to relevant banks and financial institutions. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6	**Disclosures**	• We requested that the material estimation uncertainty reported by the valuer in relation to the valuation of land and buildings was included in the financial statements. Initial disclosure did not specifically refer to the material uncertainty. This has been amended the in the final version of the accounts. • We requested that the material estimation uncertainty contained within the valuation of property investments of LGPS scheme assets was included in the financial statements. This has been amended the in the final version of the accounts. • A number of minor presentation and disclosure amendments were required to the draft financial statements. Refer to Appendix C for details.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • The financial statements and supporting working papers were of a good quality. This is evidenced by the low number of disclosure adjustments identified. The finance team and wider organisation were responsive to audit queries and we enjoyed constructive and effective partnership working arrangements and relationships in the delivery of the audit. • Other factors also impacted the delivery of the audit: • the need to obtain additional evidence from your Actuary following the post balance sheet event of the HMT consultation on pensions.

Other responsibilities under the Code

	Issue	Commentary
1	**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 Statements and Narrative Reports), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect We have not identified any further material issues in relation to the Annual Governance Statements and Narrative Reports.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or are misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
3	**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 group audit instructions. No work is required as the Authority does not exceed the threshold;
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2019/20 audit of Essex Police, Fire and Crime Commissioner Fire and Rescue Authority in the audit opinion subject to any residual procedures in respect of Whole of Government Accounts.

Value for Money

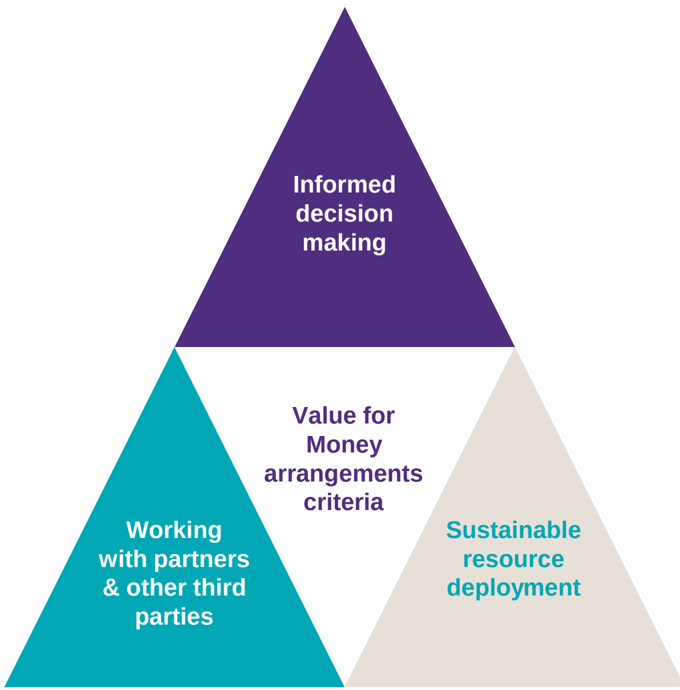
Background to our VFM approach

We are required to satisfy ourselves that the PCC and Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the PCC and Chief Constable. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our audit plan

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We have not identified any new VfM risks in relation to Covid-19. However we have considered the potential impact of Covid-19 on the Authority's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VfM risk around the arrangements in place for Medium Term Financial Planning

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Authority's arrangements.

We have set out the conclusions we drew from this work on the following pages.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority had proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or the Authority.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusions
Fire and Rescue Plan You have recently launched your Fire and Rescue Plan (2019-2024) setting out your eight priorities for the next five years. We will assess arrangements in place to deliver the plan. We will also assess the arrangements in place to identify measures against which to assess progress and report effectively and transparently to stakeholders and the public.	The Fire and Rescue Plan details the 8 priorities and why they are important to the public. The plan is easy to read and accessible to the electorate. It demonstrates alignment with the National Fire and Rescue Framework for England and sets out clear measures for each priority which are easy to understand and enable success to be independently and objectively considered and assessed. **On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.**
Cultural change programme Following recommendations made in the Lucas Review Report in 2015, you began implementing a cultural change programme. We will assess the effectiveness of governance arrangements in place to plan and implement the next phase of the cultural change programme and drive transformation in behaviours, culture and ways of working.	You have continued to make positive strides forward in response to this. You have considered in detail the responses to the recommendations in the Lucas review and strengthened the communication of progress in respect of these, allowing you to demonstrate where actions have been 'completed', and enabling you to focus on forward looking priorities arising from your progress to date. Cultural change is being embedded with deliberation and changes in processes and frameworks, and it is clear a significant amount of thinking has gone in to the best way of effecting change within the context and environment of the service in Essex. Progress over the past few years was comprehensively documented and presented to TCWG, management and the audit committee during the year, and consensus was reached in being able to accept and 'sign off' completed actions and focus on emerging priorities arising from the journey to far, consolidated into 13 key themes. **On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.**

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusions
Collaboration with the Police under the PFCC structure Since October 2017 you have been working under new governance arrangements with governance vested in the Police, Fire and Crime Commissioner. These arrangements aimed to drive operational and financial efficiencies. We will review the arrangements in place for collaboration with the Police and assess the extent to which the benefits articulated in the business case for change have been realised.	Your arrangements to drive transformation and change are in their early stages. Management is able to articulate the overarching objectives and understands the critical success factors needed within the arrangements to achieve them. The Covid-19 pandemic has understandably slowed progress, but management is also using this as an opportunity to identify other ways of working that may provide longer term benefits. You recognise that availability of sufficiently skilled personnel to drive the programmes is an issue. You recruited to the PMO office earlier in the year, but continued to face a shortage of business analysts, and challenges in identifying capacity from station managers to engage and drive on the ground change. You also recognised the need for greater engagement from the SROs. You had identified, pre-Covid-19, circa 20 programmes for change. There was an appreciation from management that there was a general awareness of 'what needed to be fixed', but not necessarily the knowledge and capabilities to know how to fix them – a view we concurred with and one which in itself demonstrated sound judgement in identifying skills gaps – an essential requisite to enable you to then mitigate those gaps. Your portfolio of change programmes was ambitious and may benefit from some stream-lining, as well as a considered analysis of what represented genuine transformation and what represented changes in transactional processes which do not require the same level of oversight. This would enable you to focus your emerging arrangements on the areas requiring greater challenge and support, and those likely to bring about greater transformational change over the medium term. Whilst your arrangements are in the early stages, there is a good understanding of what you want to achieve and appreciation for the skills need to achieve it, even if they are not currently within the organisation. It will be important to focus on streamlining the transformation portfolio and strengthening the capabilities in place for medium term success in delivering these plans. **On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.**

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusions
Financial strategy and long term sustainability	
In previous years you have used your reserves to balance your budget. In your Medium Term Financial Strategy to 2024 you plan to use a further £4m of reserves and need to identify and deliver £4.3m of efficiencies. We will review updates to your medium term financial strategy, assess the gaps in savings requirements, and assess the long term sustainability of your reserves strategy, as well as how well your planned use of reserves is articulated in your strategies.	You have continued to develop your arrangements in respect of financial planning and the inter-connectivity with other strategic plans within the service. The substantive appointment of a new Director of Finance during the year has brought a new dynamic to the arrangements and a 'non-Fire' perspective, enriching the experience and capabilities of the senior management team. You have responded well to the Covid-19 pandemic, operationally and financially, re-diverting employees to focus on areas where they are needed most, changing the nature of your services in response to lockdown arrangements, and ensuring you have a good understanding of the financial cost implications of the pandemic on the organisation. You have challenged budget holders to identify additional savings with the aim of reducing the 2021/22 budget requirement. We reported previously on the need to better integrate your workforce strategy and MTFP. This remains a work in progress but you are able to better articulate how the Annual Plan, Integrated Risk Management Plan, Change Plan and the MTFP inform each other. You recognise the need, linked with the previous section, to better capture and articulate non-financial benefits and ensure they are used to best effect – for example, maximising the benefit of time saved from reduced absences. As you continue to identify the series of projects and programmes to deliver the transformation you desire over the next few years, and ensure the delivery of the culture change and collaboration business cases, the reserves strategy needs to be updated accordingly. As you part of this update, you may wish to consider your powers to use capital receipts flexibly. We have reviewed updates to your medium term financial strategy, assessed the gaps in savings requirements and assessed the extent to which your financial plans are aligned with wider economic considerations, as well as the reasonableness of assumptions underpinning the strategy. We consider your plans to be reasonable and based on appropriate assumptions. **On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.**

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

Audit and Non-audit services

No non-audit services were identified which were charged from the beginning of the financial year to the date of issue of this report

Action plan

We have identified two recommendations for the Authority as a result of issues identified during the course of our financial statement audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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.

Issue and risk	Recommendations
The Authority amended the general and earmarked reserves in October 2020, seven months after the year end, 3 months after the accounts had been recommended for approval by the Audit Committee and 2 months after the close of the statutory public inspection period. The amendment was made in respect of undocumented earmarking policy decisions	• Decisions regarding earmarked reserves should be documented in writing, with an official record kept of such decisions • All reserves earmarking decisions should be reflected in the accounts before they are presented for audit, published on the website in compliance with the Authority's legal requirements under the Local Audit and Accountability Act 2014 and recommended for approval by the audit committee.

Follow up of prior year recommendations

We identified the following issues in the audit of the Authority's 2018/19 financial statements, which resulted in 4 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Prior year issue:** Your revaluation process is not compliant with the requirements of the Local Government CIPFA Code of Practice. **Prior year recommendation:** Following a full revaluation exercise in 2019/2020, you will need to implement a revaluation policy which ensure your assets are revalued sufficiently regularly but also ensures the carrying value of your assets is not materially different from the current value as at the 31 March.	Management have now updated their revaluation policy. Assets are revalued annually to ensure the carrying value does not differ from the current value.
X	**Prior year issue:** As part of our work on the journal I.T. control environment we identified three 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.	The segregation of duties issue continues to persist. As in the prior year, we carried out additional work to assure ourselves that the risk has not resulted in instances of inappropriate authorisation of transactions. No issues identified from this work.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations - continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue:** Given the difficulties we faced obtaining evidence to support previous decisions made in relation to the historical use of capital receipts, we recommend you strengthen the documentation of judgements and decision making in these areas, and ensure your MRP policy is updated to fully reflect the decisions intended to be taken and approved by the Authority. **Prior year recommendation:** Strengthen the documentation of judgements and decision making in relation to capital financing and ensure your MRP policy is updated to fully reflect the decisions intended to be taken and approved by the Authority.	No issues have been identified in our review of the MRP charge in the current year
X	**Issue:** As part of our work on your full revaluation exercise, we identified 11 assets (£2.9m) which were classified as surplus in the valuers report but were not classified as surplus in your statement of accounts. In response to our challenge, management provided us with a formal judgement setting out a rationale as to why the assets were not surplus and therefore correctly included within operational land and building. Whilst we are satisfied that the judgement is reasonable, these assets were nevertheless incorrectly valued at Fair Value, instead of Existing Use Value (EUV) as required by the Code. Whilst we are satisfied that the difference in valuation methodology does not lead to a material misstatement, it does indicate a weakness in the controls put in place by management pertaining to the valuation exercise. **Prior year recommendation:** Ensure the valuer is instructed to value assets on the right basis. In order to do so, management will need to have a formal process to make judgments, in accordance with the accounting framework, as to the correct classification of assets as at 31 March 2019.	**Current year work:** Within the work performed for the 2019-2020 Audit, the same issue has been identified. 12 assets totalling £3.1m have been identified by your valuer as surplus and valued at Fair Value. These assets are however classified within operational land and building in your statement of accounts. Management has provided us with a judgement setting out their rationale as to why these assets are operational land and building and not surplus. We have reviewed this judgement as we are happy it is reasonable. Nevertheless, these assets have been incorrectly valued at Fair Value, instead of Existing Use Value as required by the Code. The different valuation methodologies could result in different values. Whilst we are satisfied that this difference is unlikely to be material, it continues to indicate a weakness in processes and controls in relation to the valuation process. **Current year recommendation:** In line with last years recommendation, management should ensure the valuer is instructed to value assets on the correct basis. In order to do so, management will need to have a formal process to make judgments, in accordance with the accounting framework, as to the correct classification of each of the assets as at 31.3.20.

Assessment

✓ Action completed

X Not yet addressed

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 do not have any adjusted misstatements to report.

		Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Overall impact
1	**Impact of HMT Consultation on police pension scheme** Management requested a revised report from its actuary which reflects the HMT consultation in the assumptions which underpin the estimates for the pension liability and service costs in line with IAS 19. The impact of this change in the assumptions was to reduce the pension liability by £2,599k. This results in changes to the Authority's Comprehensive Income and Expenditure Statements, Balance Sheets and Movement in Reserves Statements, as well as a number of the Notes to the financial statements including the Expenditure and Funding Analysis (EFA) and supporting notes to the EFA, adjustments between accounting basis and funding basis, Unusable Reserves and Defined Benefit Pension Schemes. For the avoidance of any doubt, the impact of this adjustment has no impact on the useable reserves of the Authority. Note this is not a misstatement however is an amendment made to the accounts based on new available information post submission of the accounts to audit.	**CIES Past Service Cost** (2,599)	**Firefighters' Pension Liability** 2,599	**CIES** (2,599) Impact on the CIES is reversed through the MIRS into unusable reserves
2	**Earmarked reserves reprofiling** Subsequent to the conclusion of the audit, the Authority amended the accounts to ear mark additional general fund reserves, totalling movements of £4.6m. This amended the General Fund reserve from £8.1m to £3.4m and the earmarked reserves from £5.9m to £10.5m. In addition to the balance sheet, relevant disclosures within the Narrative Report, the MIRS and note 8 'Transfers to/from Earmarked Reserves' have been revised.	Nil	**General reserve** 4,663 **Earmarked reserve** (4,663)	Nil

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.

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	Detail	Auditor recommendations	Adjustment agreed?
AGS – consistency with Head of Internal Audit opinion	In the draft AGS, it was disclosed that internal audit provided "An overall positive opinion for 2019/20". To ensure strict consistency with the Head of Internal Audit opinion, we recommended that management update the wording. It now reads "An overall adequate and effective opinion was given for 2019/20".	Management has agreed to update to the AGS to ensure consistency with the Head of Internal Audit opinion.	✓
Financial instruments	Financial instruments - Note 11 Our testing of financial instruments identified several liabilities which met the definition of a financial instrument had been incorrectly omitted from the disclosure in note 11. The disclosure change has been amended in the final accounts.	Management have agreed to make the required amendments.	✓
Operational Income disaggregation	In the draft financial statements, 'operational income' of £8.3 million included grants credited to the CIES as well as fees and charges. This distinction was not however made clear in the draft financial statements and so the reader of the accounts was unable to understand the different sources of material revenue. In response, management has revised Note 23 by disaggregating the £8.3m of 'operational income' into individually significant grant revenue streams and significant fees and charges.	Management has agreed to amend the accounts by disaggregating the £8.3m of 'operational income' in note 23.	✓
Related Party Transaction disclosure	Our work in this area identified that some of the related parties disclosed by the Authority in the draft accounts did not meet the definition of a related party per IAS24. Management has amended this note in the final accounts such that it only discloses related parties that meet the definition set out in IAS 24.	Management has agreed to amend the Related Party Transaction note accordingly.	✓

Audit Adjustments

Misclassification and disclosure changes - continued

Disclosure changes	Detail	Auditor recommendations	Adjustment agreed?
Holiday pay expenditure misclassification	As part of our review of the financial statements, we identified that management had processed a manual transaction outside of the ledger to account for the movement on the annual leave accrual. Having reviewed the manual transaction we found that accounting treatment was incorrect. During our investigation we discovered that the annual leave adjustment had already been posted to the ledger correctly. The manual transaction was therefore not needed and therefore needed to be reserved. Management have reversed this transaction in preparation for the final statement of accounts. Dr Net Cost of Services - £251k Cr Depreciation, impairment and other costs - £251k	Management has agreed to update the statement of accounts to reverse the impact of the erroneous manual transaction.	✓
Disclosure of PFCC salary	The PFCC salary has not been disclosed in the RPT note	Management has agreed to update the RPT note	✓
Material valuation uncertainty disclosures	**Note 6 – Assumptions made about the Future and Other Major Sources of Estimation Uncertainty:** The accounts did not originally disclose the 'material estimation uncertainty' reported by the Authority's valuer. Management agreed to make amendments to the estimation uncertainty table in note 6 to ensure specific references to 'material valuation uncertainties' are disclosed.	Management has agreed to update note 6 accordingly.	✓
Pensions Liability - LGPS scheme assets	As a result of the global pandemic, there is a greater level of uncertainty in respect of the value of scheme assets in the LGPS pension fund as at 31 March 2020. Having raised the issue with management, note 6 has been updated to include a specific disclosure to reflect this uncertainty. We have reviewed the revised disclosure and we consider it to be reasonable.	Management has agreed to update note 6 accordingly.	✓

Audit Adjustments

Misclassification and disclosure changes - continued

Disclosure changes	Detail	Auditor recommendations	Adjustment agreed?
Financial instruments	**Note 11.1 – Financial Instruments – PWLB fair value disclosure** In accordance with IFRS 13, management are required in their financial statements to disclosure the fair value of loans. In accordance with the CIPFA Code of Practice, the fair value of Public Work Loan Board (PWLB) loans should be calculated on the 'New Loan Rate' (NLR). As part of our testing we reviewed whether the disclosure in your financial statements had been calculated on the correct basis. This work identified that the NLR had not correctly been used and management have since revised the disclosure. In the draft accounts the fair value of PWLB loans was estimated to be £35.6m but this has now been changed in the final accounts to £29.8m. Note that this is purely an accounting **disclosure only** and has no impact on the reporting position of the Authority.	Management have agreed to make the required amendments.	✓
Worded disclosure change in pensions note	**Note 29.4 – Pension Scheme History** Within note 29.4 of the draft accounts, the disclosure for the net defined benefit obligation does not agree to your balance sheet. This typo has been correct for in your final accounts. Figure disclosed in your draft accounts: £746.1m Actual figure per your draft balance sheet: £743.6m	Management have agreed to make the required amendments.	✓
Pensions disclosure – note 29.2	**Pensions disclosure – note 29.2** Following our review, management revised note 29.2 to ensure the amount disclosed as the net charge to the general fund is accurate. There was a casting error in the draft accounts which meant the figure was incorrect.	Management have agreed to make the required amendments.	✓
Other presentational and disclosure issues	Management has also amended other minor and presentational issues highlighted during the course of the audit.	Management have agreed to make the required amendments.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	**PPE- prior period casting error by your valuer** As part of our substantive testing of PPE valuations, for a sample of assets, we requested and obtained the individual valuation sheets produced by your valuer. Individual valuation sheets provide the detailed underlying assumptions the valuer has used in their calculations that we subject to audit testing to confirm their reasonableness. As part of this testing, we identified that for one asset (Rayleigh Weir Fire Station), the detailed valuation sheet indicated a different gross value as at 31 March 2019 than was included in your prior year accounts. Upon investigation, the difference was caused by a casting error made by your valuer in producing the summary valuation data upon which management produced the 2018/19 accounts. The difference between the detailed valuation sheet and the summary valuation data in 2018/19 was an understatement of £922k, meaning that your PPE balance as at 31 March 2019 should have been £922k higher. As this amount is not material, in accordance with IAS 8, management is not required to process a prior period adjustment. Furthermore, as this asset was properly revalued in 2019/20, there is no residual issue within your balance sheet as at 31 March 2020 and the error has been superseded. The only error is therefore one of classification on your opening balance between PPE and the Revaluation Reserve. As this exceeds triviality, we are required to report it to you.		**Opening Balance PPE** 922 **Opening balance Revaluation Reserve** (922)		Non-material prior period error, not adjusted in line with IAS 8. No on-going impact on 31 March 2020 balances as asset revalued during 19/20.
	Overall impact	**0**	**0**	**0**	

Audit Adjustments - Firefighters' Pension Fund Account

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the Firefighters' Pension Fund Account. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

	Detail	Firefighters' Pension Fund Account £'000	Firefighters' Pension Fund Net Asset Statement £' 000	Reason for not adjusting
1	**Lump sum payments** From audit testing performed we identified a number of samples where the auditor recalculated pension benefit payable based on evidence received was different to the pension benefit paid by the entity. We have extrapolated this error which indicates a total overstatement of £157k. We have also done work to assess whether the differences identified could have a material impact on the recurring pension benefit payments. This work confirmed sufficient assurance has been obtained and the projected difference was below materiality (£413k)	**Commutations and lump sum retirement benefits** 157 **Pensions** 413	**Pension fund liabilities** (570)	Non-material projection
	Overall impact	**157**	**(570)**	Aggregate misstatement significantly below materiality.

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on 2019-20
Emergency Planning Reserve During the year, the partnership arrangement between Essex County Council and Essex Fire for he provision of emergency planning services came to an end. As a result, previous budget underspends were due back to the Council. The total budget underspend was £470k and in August 2018, Essex County Council raised an invoice for this payment. This was duly paid by Essex Fire, and the costs were offset by a transfer of the same amount from Earmarked Reserves to the General Fund. Management however accounted for the costs as a reduction in revenue rather than as expenditure in year. Whilst management explained their rationale, it was not consistent with the judgement to set up an earmarked reserve in the first place, which requires revenue to be fully recognised in the year it was received. The issue was discussed with management who now agrees that the correct accounting treatment would be to recognise this as expenditure. Given however that the amount is not material and is just a reclassification between income and expenditure (not net impact) the accounts have not been adjusted for this. We are therefore reporting this to you as an unadjusted misstatement.	**Expenditure** 470 **Revenue** (470)	0	0	No ongoing impact on the 2019-20 accounts. Opening balances are correct, the error only impacted the classification on the CIES in the 2018-19 accounts.
Accruals testing As part of our sample testing of year end creditors, we identified that for two accruals, the amount subsequently paid post period end differed from the amount recorded in the accounts. We extrapolated this difference over the total population of creditors to quantified the potential impact. The extrapolated error was £69k. As this exceeds triviality, we are reporting this to you. Management have not adjusted for this as it is not material and is based on an extrapolation.	69	(69)	69	No ongoing impact no the 2019-20 accounts. The error was one of timing between the 2018-19 accounts. Issue does not individually or in aggregate contribute to a material misstatement.
Overall impact	**69**	**(69)**	**69**	

Fees

We confirm below our final fees charged for the audit

Audit Fees	Proposed fee	Final fee
PFCC Audit	34,980	TBC
Total audit fees (excluding VAT)	**£34,980**	**TBC**

The proposed fee reconciles to the financial statements. The final fee will be confirmed once any residual work concerning the Whole of Government Accounts return is finalised (this is awaiting national release of guidance) and the certificate is able to be issued.

Non Audit Fees

No non-audit or audited related services have been undertaken for the Authority.