

**Police, Fire & Crime  
Commissioner for Essex /  
Chief Constable of Essex Police**

Annual Audit Letter for the year  
ended 31 March 2018

29 August 2018

**EY**

Building a better  
working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



# 01 Executive Summary

# Executive Summary

We are required to issue an annual audit letter to the Police, Fire and Crime Commissioner for Essex (the PFCC) and the Chief Constable of Essex Police (the CC) following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the PFCC's and the CC's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the PFCC and the CC as at 31 March 2018 and of their expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the PFCC's and the CC's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the PFCC and the CC.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the PFCC and the CC, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the PFCC's and the CC's Whole of Government Accounts return (WGA).</b>	The PFCC and the CC are below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 23 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 July 2018.

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We would like to take this opportunity to thank the PFCC's and the CC's staff for their assistance during the course of our work.

*MARK HODGSON*

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP



## 02 Purpose and Responsibilities



# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to the PFCC, the CC, the Joint Audit Committee and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the PFCC and the CC .

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the Joint Audit Committee meeting on 27 July 2018 and to the PFCC and the CC, as those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the PFCC and the CC.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we presented at the Joint Audit Committee meeting on 6 April 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the PFCC and the CC has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the PFCC and the CC;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the PFCC and the CC, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The PFCC and the CC are below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the PFCC and the CC

The PFCC and the CC are responsible for preparing and publishing their statement of accounts accompanied by an Annual Governance Statement. In the AGS, the PFCC and the CC report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

The PFCC and the CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.



03

## Financial Statement Audit



# Financial Statement Audit

## Key Issues

The PFCC's and the CC's Statements of Accounts are an important tool for the PFCC and the CC to show how they have used public money and how they can demonstrate their financial management and financial health.

We audited the PFCC's and the CC's Statements of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 July 2018.

Our detailed findings were reported to the Joint Audit Committee meeting on 27 July 2018.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Misstatements due to fraud or error</b></p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We considered the accounting estimates relating to pensions and property valuations as the most susceptible to bias. We challenged the significant assumptions in the actuarial pension valuation and found no indication of management bias in these estimates. Our work on the property valuations found no material errors in the balances presented within the financial statements.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the PFCC's and CC's normal course of business.</p> <p>Overall, our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the PFCC's or CC's financial position, that revenue or expenditure has been incorrectly recorded or that management has overridden control.</p>
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>For Essex Police, we identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of misstatement.</p>	<p>We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised. Our testing did not identify any expenditure which had been inappropriately capitalised.</p> <p>Overall, our audit work did not identify any material misstatements to indicate that revenue and expenditure had been incorrectly recorded.</p>

## Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p><b>Property, plant and equipment valuation</b></p> <p>The fair value of Property, Plant and Equipment (PPE) represents significant balances in the PFCC's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We are satisfied that the PFCC's valuers, Wilks Head &amp; Eve, have the necessary qualifications and experience. We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the PFCC's property, focusing in particular on specialised assets, which are valued on a depreciated replacement cost basis, which is a more judgemental valuation basis.</p> <p>Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates.</p> <p>We considered the underlying assumptions made by the expert valuer and concluded that the overall valuation estimate was not unreasonable and did not result in a material misstatement of the value of property, plant and equipment.</p>
<p><b>Pension valuation &amp; disclosures</b></p> <p>The Code of Practice on Local Authority Accounting and IAS19 require the CC to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body. The PFCC must also do similar in respect of the Police Pension Fund.</p> <p>The PFCC's and the CC'S current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the respective balance sheets. The information disclosed is based on the IAS 19 report issued to the PFCC and the CC by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We assessed and were satisfied with the competency and objectivity of the PFCC's and CC's actuary: Barnett Waddingham. EY Pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuary. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.</p> <p>We have received reports from the Essex Pension Fund Auditor and the EY actuarial team.</p> <p>The report from the Essex Pension Fund Auditor identified material movements in the pension assets and related disclosures, as a result of significant movements in the asset values between the date of the estimates used by the actuary to produce the IAS19 report and the year end.</p> <p>The PFCC and CC obtained the revised IAS 19 reports and agreed to make the relevant changes to the accounts.</p> <p>The accounting entries and disclosures are in line with our expectations and the Code.</p>

## Financial Statement Audit (cont'd)

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be:</p> <ul style="list-style-type: none"><li>• For the Group: £9.1 million (2016/17: £8.2 million), which is 2% of gross expenditure on provision of services reported in the accounts of £454 million</li><li>• For the PFCC: £2.8 million (2016/17: £3.0 million), which is 2% of gross assets reported in the accounts of £139 million</li><li>• For the CC: £7.8 million (2016/17: £7.1 million), which is 2% of gross expenditure on provision of services reported in the accounts of £389 million</li><li>• For the Police Pension Fund: £1.6 million (2016/17: £1.5 million), which is 2% of the higher of Benefits Payable/Contributions Receivable on the Police Pension Fund.</li></ul> <p>We consider the above materiality bases to be the principal considerations for stakeholders in assessing the financial performance of the Group, the PFCC, the CC and the Police Pension Fund.</p>
Reporting threshold	<p>We agreed with the Joint Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.5 million, £0.1 million, £0.4 million and £0.08 million for the Group, the PFCC, the CC and the Police Pension Fund respectively.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits; and
- ▶ Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

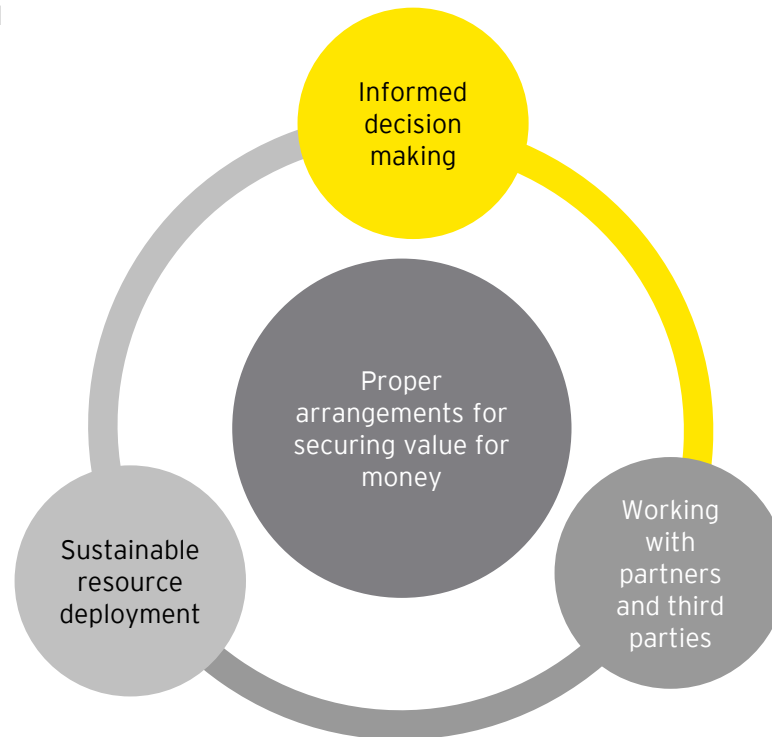


# 04 Value for Money

We are required to consider whether the PFCC and the CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We identified one significant risk in relation to these arrangements. The tables below presents the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the PFCC's or the CC's arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 27 July 2018.

## Value for Money (cont'd)

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Significant Risk	Conclusion
<p data-bbox="91 467 801 531"><b>Financial Planning and Resilience</b> <i>(Deploying resources in a sustainable manner)</i></p> <p data-bbox="91 563 801 722">Nationally, the police sector has been subject to funding reductions over recent years. However, the funding settlement included in the Chancellor's Autumn Statement in November 2015, was more positive than the PFCC's previous expectations.</p> <p data-bbox="91 754 801 818">The extent of financial pressures on the budget and reserves has therefore been reduced.</p> <p data-bbox="91 850 801 946">However, there are still cost pressures and the need to achieve savings in both the 2018/19 budget and the medium financial plan still exists.</p>	<p data-bbox="801 467 2141 722">The Office of the PFCC and Office of the CC have continued to respond to the financial challenges they, along with other public sector bodies, are facing. The size of that challenge however remains significant. Business cases for making savings continue to be reviewed as part of the Transformation programme and cost pressures remain one of the key discussion areas at senior officer meetings. Zero-based budgeting has provided Essex Police with a better understanding of budgets and devolution of some budgets has allowed budget holders to make informed decisions, within parameters. This has enabled more focus on costs and financial management, especially when considering business cases and understanding the financial implications.</p> <p data-bbox="801 754 2141 1010">There is effective and co-operative working between the Office of the PFCC and the Force and they continue to scrutinise their way of working. The commencement of governance arrangements of Essex Fire and Rescue Authority from 1 October 2017 has enabled the PFCC to consider further collaborative arrangements across the County. While this arrangement has been in place for less than a year, estates are being shared by the two organisations and discussions around other shared services, such as fleet workshops has commenced. This should have a number of benefits, which can be delivered at a local level in the long-term. In addition, Essex Police continues to develop wider collaboration with other organisations, including shared support and serious crime units and a shared force control room with Kent Police.</p> <p data-bbox="801 1042 2141 1268">Essex Police has responded to these pressures in both its budget for 2018/19 and the MTFS. The MTFS is continually updated and is based on realistic and prudent assumptions, as is the 2018/19 budget. However, Essex Police still face significant pressures, with the updated MTFS showing a shortfall before cashable savings and efficiency plans of £35.5 million over the five year period from 2018/19 to 2022/23. This is based on a precept increase of 0% from 2019/20. The full savings requirement of £3.5 million has already been identified for 2018/19, with £4.0 million from a £7.7 million savings requirement having been identified for 2019/20.</p>

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05

## Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

The PFCC and the CC are below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the PFCC's and the CC's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PFCC and the CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PFCC and the CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.



## Other Reporting Issues (cont'd)

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### Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Joint Audit Committee on 27 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the PFCC, the CC or the Joint Audit Committee.



06

Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the PFCC and the CC is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the PFCC and the CC will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items.</li> </ul>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the PFCC and the CC will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The PFCC and the CC must therefore ensure that all lease arrangements are fully documented.</p>

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A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background shows the perforated metal of the cabinet drawers.

## 07 Audit Fees

## Audit Fees

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Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our Annual Results Report presented to the Joint Audit Committee meeting on 27 July 2018.

Description	Final Fee 2017/18 £'s	Planned Fee 2017/18 £'s	Scale Fee 2017/18 £'s	Final Fee 2016/17 £'s
Total Audit Fee - PFCC Code work	41,235	41,235	41,235	41,235
Total Audit Fee - CC Code work	18,750	18,750	18,750	18,750

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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