

The Joint Audit Findings for Police, Fire and Crime Commissioner for Essex and Chief Constable for Essex

Year ended 31 March 2019
July 2019



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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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audits of Essex Police, Fire and Crime Commissioner ('the PFCC') and Essex Chief Constable and the preparation of the PFCC and Chief Constable's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements

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

Our audit work was commenced on site in June. Our findings are summarised on pages 5 to 17. We have identified 2 adjustments to the financial statements that have resulted in a £101.3m adjustment to the Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A.

The financial statements and supporting working papers were of a high 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.

The finance team experienced unplanned and unavoidable capacity issues during the final accounts audit. The finance team have worked extremely hard in the circumstances, prioritising audit requests where possible to provide supporting evidence for transactions and judgements. The capacity issue has had an impact on the progress of the audit. The effective and constructive working relationships between the finance and audit teams has enabled us to mitigate this as much as possible.

Other factors also impacted the delivery of the audit:

- the need to obtain updated actuarial estimates following the McCloud-Sarjeant judgement (see below)
- a setting within the IT system had been enabled to prevent detailed transaction listings from certain codes being obtained. This setting can only be fixed prospectively, and so historical transactions could not be recovered
- additional analysis was required from your valuer to gain assurance that the value of assets not revalued in year was not materially different from their carrying value in the accounts.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion for the PFCC's financial statements (including the group financial statements which consolidate the financial activities of the Chief Constable) or the Chief Constable's financial statements (Appendices D and E). We noted one material change to the financial statements which management has adjusted. This related to an increase in past service costs in light of the McCloud-Sargeant pensions ruling, impacting on all three sets of financial statements. Further detail is included at Appendix C. Our proposed opinions are subject to the satisfactory resolution of the outstanding matters outlined on the following page.

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

Our anticipated audit report opinions will be unmodified.

Headlines

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, both entities have 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 reviews of the PCC's and Chief Constable's value for money arrangements. We have concluded that both Essex PFCC and Essex Chief Constable have proper arrangements to secure economy, efficiency and effectiveness in their use of resources

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 audits.

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

Acknowledgements

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

Summary

Overview of the scope of our audit

This Joint Audit Findings Report presents the observations arising from the audits that are significant to the responsibility of those charged with governance 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 have been discussed with management and will be discussed with the PFCC and the Chief Constable.

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 those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you in February 2019.

Conclusion

We have substantially completed our audits of your financial statements and, subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E and F. These outstanding items include:

- receipt and review of evidence to enable completion of our testing in relation to transactions within SAP codes where breakdowns cannot be obtained
- completion of our work on revenues (including grants and council tax), PPE disposals, depreciation, revaluations, unrecorded liabilities, the annual leave accrual and the valuation of your pension liability following adjustments required in respect of the McCloud judgement
- review and receipt of the final set of financial statements.
- receipt and review of management representation letters; and
- audit manager and engagement lead review of the work performed on the audit file and satisfactory follow-up and resolution to any queries raised.

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 PFCC, Chief Constable and Group. We have applied the lowest of these materialities for the audit of each entity and the group.

	PFCC Amount (£)	Chief Constable Amount (£)	PFCC Group Amount (£)
Materiality for the financial statements	7,000,000	6,038,000	• 7,342,000
Performance materiality	5,250,000	4,528,000	• 5,506,000
Trivial matters	350,000	302,000	• 367,000

Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p>	<p>Group, PFCC and Chief Constable (rebutted)</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the PFCC, Chief Constable and group, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of police bodies, including the PFCC, Chief Constable and group, mean that all forms of fraud are seen as unacceptable. <p>There have been no changes to the assessment above as reported in our Audit Plan.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Chief Constable and PFCC face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement</p>	<p>Group, PFCC and Chief Constable</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine 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 consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>As part of our work on the general IT control environment we identified a number of SAP general ledger codes where management were unable to provide detailed transaction listings. Management investigated the issue and discovered that a setting within the system had been enabled to prevent detailed transaction listings from certain codes being obtained. This setting can only be fixed prospectively, and so historical transactions could not be recovered.</p> <p>The number of affected SAP codes was 9 which included an aggregate balance of £3,085k.</p> <p>Give the double entry principle of account, management performed an exercise to match hidden transactions within affected SAP codes to their opposite entries in unaffected SAP codes. This allow management to create the transaction listing for the £3,085k. Work is still on going to now test this population provided by management. On completion, this will provide us with reasonable assurance of the £3,085k balances.</p> <p>A control recommendation has been raised 'to review your general ledger to ensure it is configured appropriately to enable a complete audit trail of all transactions to be reported'.</p> <p>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 5, there are no other material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</p>

Significant findings – audit risks

3	Risks identified in our Audit Plan	Relates to	Commentary
	Valuation of land and buildings <p>The PFCC and Group revalue their land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£71 million as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management need to ensure the carrying value in the PFCC and Group financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	PFCC and Group	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> 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 PFCC (and group's) asset register. evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. <p>During the audit, it transpired that management did not have sufficient assurance over the material accuracy of the valuation of the 80% of land and buildings (by number) which had not been revalued in year. These assets had a carrying value in the draft financial statements of £66.018m. The reason for this is because management only receive a market review from your valuers to provide assurance over the valuation change of the 20% of assets they did revalue in year. As part of the rolling valuation processes, there is no arrangement in place to obtain assurance that the value of the assets not revalued in year are materially stated.</p> <p>In response to this issue, management requested their valuation expert, Wilks Head and Eve, to prepare a desktop exercise using indices to calculate the potential difference in the carrying value of assets not revalued. This exercise by your valuer calculated a difference of £2.7m. You are currently reviewing the reasonableness of this estimate by consulting your in-house estates team.</p> <p>Once you have concluded your review, we will assess the reasonableness of assumptions used by your valuer in this exercise and compare indices to those provided by our auditors' expert. Based on calculations using indices given by our auditors expert, we do not anticipate a material difference.</p> <p>We have raised a recommendation to management to consider strengthening processes and controls in place to provide assurance that the carrying value of assets on your balance sheet are not materially different to the current value.</p> <p>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 5, there are no other material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>4 Valuation of pension fund net liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Police Officer Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	PFCC, Chief Constable and Group	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • Gained an 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. <p>As at the date of writing, we are awaiting the required assurances from the auditor of Essex County Council Pension Fund as detailed in the final bullet point above. These are expect to be provided upon completion of the Essex County Council Pension Fund audit, in advance of the statutory deadline for publication of the audited financial statements of 31 July 2019.</p> <p><u>Impact of the McCloud transitional protection pensions ruling</u></p> <p>The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was refused in late June 2019. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. For the PFCC and Chief Constable, this encompasses both the Police Officer Pension Scheme and the Local Government Pension Scheme.</p>

Significant findings – audit risks

	Risks identified in our Audit Plan	Relates to	Commentary
4	Valuation of pension fund net liability	PFCC, Chief Constable and Group	<p>Auditor commentary</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government, Police and Fire bodies. Management requested estimates from their actuaries of the potential impact of the McCloud ruling. The actuary's estimate for the Police Pension Scheme was of a likely increase in past service cost and overall pension liabilities of £95.6m. For the Local Government Pension Scheme, the actuary's estimate was a likely increase in past service cost and overall pension liabilities of £5.7m.</p> <p>In conjunction with auditor's experts, we are currently reviewing the analysis performed by the actuaries for both the Police Officer Pension Scheme and Local Government Pension Scheme, and considering whether the approach that has been taken to arrive at these estimates is reasonable.</p> <p>There is sufficient evidence to indicate that a liability is probable, in particular in light of the Supreme Court refusal of the right to appeal the original judgement. As such, management is in the process of updating their financial statements to reflect the revised liability and service cost figures provided by their actuaries. This will result in changes to the draft Chief Constable, PFCC and Group 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 and explanatory note, Adjustments between Accounting Basis and Funding Basis under Regulation, Unusable Reserves and Defined Benefit Pension Schemes. This impact has been reported within 'Adjusted Misstatements' at Appendix B below.</p> <p>In addition, an additional disclosure note will be added explaining the position and the impact on both long-term liabilities in the Chief Constable, PFCC and Group balance sheets as well as potential increases in contributions payable to each scheme in future years following further actuarial valuations. This remains subject to finalisation and audit review. This has been reflected in 'Misclassification and Disclosure Changes' at Appendix C below.</p> <p><u>Impact of Guaranteed Minimum Pension (GMP) equalisation ruling</u></p> <p>The High Court has ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. The Government has announced an "interim solution" for members in public service schemes, including the Police Pension Scheme and the Local Government Pension Scheme. We performed specific work to ensure that the impact had been sufficiently included within the Chief Constable and PCC's pensions liability calculations.</p> <p>We are satisfied that all material liabilities arising from the GMP ruling have been included for both schemes in the Chief Constable and PFCC balance sheets, having already been considered in the original actuarial valuations obtained for the draft financial statements, or otherwise having an immaterial impact. No amendment to the financial statements has been required as a result of this issue.</p> <p><u>Conclusion</u></p> <p>Subject to the satisfactory resolution of the issues outlined above and the satisfactory completion of outstanding work set out on page 5, we have identified no further issues to report to those charged with governance in respect of the identified risk.</p>


Significant findings – key judgements and estimates

	Relates to	Summary of management's policy	Audit Comments	Assessment
Land and Buildings	PFCC and Group	<p>Other land and buildings comprises £71m of assets such as police stations and custody suites, which are required to be valued at current value. The PFCC has engaged Wilks Head and Eve to complete the valuation of land and properties as at 31 December on a five yearly cyclical basis. The valuation of land and properties valued by the valuer has resulted in a net increase of £107k.</p> <p>Management also engaged their valuer to provide a market review at year end to estimate the difference in valuation between the valuation date (31 December) and the balance sheet date (31 March).</p> <p>Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2015, 31 March 2016, 31 March 2017 and 31 March 2018, by instructing their external valuations specialist to undertake a desktop exercise to determine whether the value of the properties has materially changed. This exercise performed by your valuer calculated a non-material difference of £2.7m. As at the date of writing, you are currently awaiting your estates team to review the estimates and assumptions used by the valuer.</p> <p>To gain assurance over this exercise, we have performed a similar analysis using indices provided by our auditor's expert. The result of this analysis has not indicated that the value of your land and buildings not revalued in year is materially misstated.</p>	<ul style="list-style-type: none"> We have assessed the valuer, Wilks Head and Eve, to be competent, capable and objective. We have carried out completeness and accuracy testing of the underlying information used to determine the estimate, and have no issues to report. The valuation method remains consistent with the prior year. We confirm consistency of estimates against the Gerald Eve report on property market trends, and reasonableness of the increase in the estimate. We have agreed the valuation report to the fixed asset register and the financial statements. <p>Recommendation: Management should ensure they obtain appropriate evidence to verify that the carrying value of assets at year end, in particular for assets not revalued in year, is not materially different from the current value.</p>	●

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

	Relates to	Summary of management's policy	Audit Comments	Assessment
Net pension liability	PFCC, Chief Constable and Group	The PFCC and Chief Constable's total net pension liability at 31 March 2019 is £3,147,429k comprising the Essex Local Government Pension Scheme and the Police Officer Pension Scheme.	Our assessment of the estimate has considered: <ul style="list-style-type: none"> • 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 on the following page for our comparison of actuarial assumptions: <p>Our work is ongoing in this area and will be finalised once the financial statements are updated following the revised actuarial estimates arising from the McCloud ruling.</p>	
LGPS: £176m		Both of these schemes are defined benefit pension schemes. The PFCC and Chief Constable use Barnett Waddingham to provide actuarial valuations of the group's assets and liabilities derived from these schemes, utilising key assumptions such as life expectancy, discount rates and salary growth.		
Police Officer Pension Scheme: £2,971m		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 £127.2m net actuarial loss during 2018/19, of which £73.4 has impacted the Comprehensive Income and Expenditure Statement. The remaining £53.8m has decreased the Group's unusable reserves.		

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

	Relates to	Audit Comments				Assessment
Net pension liability	PFCC, Chief Constable and Group					
LGPS: £176m		Assumption	Actuary Value LGPS	Actuary Value PPS	PwC range	Assessment
Police Officer Pension Scheme: £2,971m		Discount rate	2.4%	2.45%	2.35% - 2.45%	
		Pension increase rate	2.4%	2.4%	2.35% - 2.45%	
		Salary growth	3.9%	3.9%	2.4% - 3.9%	
		Mortality assumptions – longevity at 45 for current male pensions (years)	21.3	21.3	20.6 - 23.4	
		Mortality assumptions – longevity at 65 for future male pensions (years)	22.9	23.7	22.2 - 25.0	
		Mortality assumptions – longevity at 45 for current female pensions (years)	23.6	23.0	23.2 - 24.8	
		Mortality assumptions – longevity at 65 for future female pensions (years)	25.4	25.5	25.0 - 26.6	

We are currently investigating further the higher discount rate used by your actuary compared to the range provided by our auditor expert.

The disclosure of the IAS 19 estimate in the financial statements will be revised to take account of the McCloud adjustment, as detailed on pages 7-8 and appendix C.

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.

1	Significant matter	Relates to	Commentary
	Significant judgement in relation to group relationship with Essex Fire	PFCC Group	<p>The PFCC is also the 'Fire Authority' and is 'Those Charged with Governance in respect of Essex Fire. Notwithstanding this relationship, you have not prepared group accounts.</p> <p>In our review of the draft financial statements, we considered there was insufficient disclosure of judgements made by management not to consolidate Essex Fire into the PFCC's Group accounts.</p> <p>We discussed the position with management. Management provided us with their judgments which referenced the relevant accounting standards and requirements of the Local Government Code.</p> <p>We have reviewed this judgement and consider it to be reasonable. We have agreed with management that this judgement is disclosed in full within your financial statements.</p> <p>Management's significant judgement on the non-consolidation of Essex Fire:</p> <p><i>On the 1st October 2017 the PFCC took on the governance of Essex County Fire and Rescue Service (ECFRS), under the joint governance model. Under this model the Police, Fire and Crime Commissioner (PFCC) forms two legal entities the PFCC and the Police, Fire and Crime Commissioner Fire and Rescue Authority (PFCCFRA) which are separate corporation soles. ECFRS is a brand name only for operational activities of the PFCCFRA, where as the Chief Constable and their service remain a separate corporation sole.</i></p> <p><i>The PFCC is responsible for the formal oversight of Essex Police and the Chief Constable, including setting the strategic direction and holding the police to account; whilst the Chief Constable has direction and control over the forces officers and staff. To fully understand how police and criminal justice funds are spent a set of group accounts is created for these two separate legal entities. For accounting purposes the PFCC is the parent entity of the Chief Constable, and together form the group.</i></p> <p><i>The accounts of the PFCCFRA remain separate and are not included within the PFCC Group Accounts, this is because the PFCC entity does not have control over the activities of PFCCFRA. All financial and governance decisions relating to ECFRS are made by the PFCCFRA and this control is embodied within the Commissioner.</i></p> <p><i>In making this judgement the PFCC has considered section 9.1 of the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which sets out the requirement for accounting for Group Accounts. Paragraph 9.1.2.30 of 'The Code' sets out the criteria which must be met to control an entity; the PFCC does not meet these requirement for PFCCFRA and therefore no group is formed.</i></p>

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

PFCC

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.

Chief Constable

The Statement of Accounts has been prepared on a going concern basis, on the assumption that the functions of the Chief Constable will continue in operational existence for the foreseeable future.

Management's assessment of whether or not Essex Police is a going concern is based on its ability to discharge liabilities in the normal course of its business. In this case the Force is reliant upon the PFCC to discharge its liabilities in the normal course of its business. This expectation is necessary to enable the PFCC to continue as a going concern

Auditor commentary

- 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).
- The Chief Constable and PFCC continue to face significant financial challenges. The scale of transformation required to reduce baseline spending is sizeable. It was estimated in the 2019/20 budget submission that savings of c£17m are required by 2025.
- Uncertainties in the medium term regarding central government funding have made financial planning for the future challenging. We have examined the Medium Term Financial Strategy (MTFS) and assessed the reasonableness of assumptions, judgements and estimates. The MTFS over a five year period assumes an increase in officer establishment with circa 215 being added into the 2019/2020 budget. This is a reversal of a recent trend where officer establishment has steadily been reducing to maintain financial resilience.
- The PFCC has approved a balanced budget for 2019/20 which includes £4m of identified baseline saving plans. We have assessed the reasonableness of the assumptions underlying this forecast, and the sensitivity of the forecasts to changes in those assumptions. We have also reviewed management's cashflow forecast up to 31 July 2020. Management have concluded that the use of the going concern basis is appropriate. In addition, management did not identify any material uncertainties related to events or conditions which may cast significant doubt about the going concern assumption.
- We are satisfied with the adequacy of management's processes for considering 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 for both Essex Police, Fire and Crime Commissioner and Essex Chief Constable

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Joint Audit Committee. 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A letter of representation has been requested from the PFCC and Chief Constable.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to banking, loan and investment counterparties. This permission was granted and the requests were sent. These requests were returned with positive confirmation.
⑥ Disclosures	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> All information and explanations requested from management was provided. The financial statements and supporting working papers were of a high 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. The finance team experienced unplanned and unavoidable capacity issues during the final accounts audit. The finance team have worked extremely hard in the circumstances, prioritising audit requests where possible to provide supporting evidence for transactions and judgements. The capacity issue has had an impact on the progress of the audit. The effective and constructive working relationships between the finance and audit teams has enabled us to mitigate this as much as possible. Other factors also impacted the delivery of the audit: <ul style="list-style-type: none"> the need to obtain updated actuarial estimates following the McCloud-Sarjeant judgement (see below) a setting within the IT system had been enabled to prevent detailed transaction listings from certain codes being obtained. This setting can only be fixed prospectively, and so historical transactions could not be recovered additional analysis was required from your valuer to gain assurance that the value of assets not revalued in year was not materially different from their carrying value in the accounts.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<p>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.</p> <p>In our review of the draft Chief Constable's accounts we identified that it did not include an Annual Governance Statement as required by the Local Government Code of practice. Management have amended for this by including the joint Annual Governance Statement, with minor amendments into the final Chief Constable's accounts.</p> <p>Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E and F</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • 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 <p>We have nothing to report on these matters</p>
3 Specified procedures for Whole of Government Accounts	<p>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.</p> <p>No work is required as the PFCC and Chief Constable do not exceed the threshold;</p>
4 Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Essex PFCC and Essex Chief Constable in the audit opinion, as detailed in Appendix E and F.</p>

Value for Money

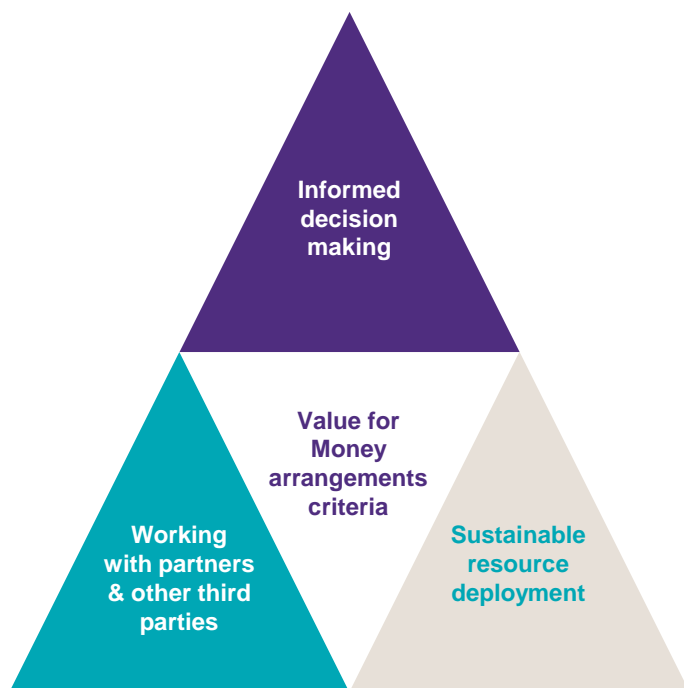
Background to our VFM approach

We are required to satisfy ourselves that the PFCC 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 PFCC and Chief Constable. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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 in February 2019 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 dated February 2019.

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 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 PFCC and Chief Constable's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the PFCC and Chief Constable's arrangements. In arriving at our conclusion, our main considerations were:

- Financial outturn for the PFCC and Chief Constable for 2018/19
- Budget for the PFCC and Chief Constable for 2019/20
- Medium Term Financial Forecast for the PFCC and Chief Constable for the next four years, including underlying assumptions and forecast savings plans
- Comparative financial data for the PFCC and Chief Constable in relation to other Forces
- Change and transformation programme governance, delivery and benefits realisation arrangements
- Progress against your change and transformation programmes in 2018/19
- Plans for change and transformation in 2019/20
- Budgeted savings and forecasts in relation to change and transformation programmes, including consideration of underlying assumptions

As part of our risk assessment, we also considered factors such as the results of recent HMICFRS inspections, the Force and PFCC risk management process and key strategic risks as identified in the Force and PFCC risk registers. No additional significant risks were identified.

We have set out more detail on the risks we identified, the results of the work we performed, and 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 both the PFCC and Chief Constable each had proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

The text of our report, which confirms this can be found at Appendix E and F.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix B.

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 those charged with governance.

Police and crime plan

Examination of the Police and Crime Plan (PCP)

- The 2016-2020 Police and Crime Plan for Essex is approaching maturity as it moves into the third year of its term. Given the rise in demand for policing services coupled with continued public sector austerity, there is a real challenge to deliver the outcomes set out in the police and crime plan.
- The PCP sets out the performance outcomes and indicators against each of the seven priorities. Performance outcomes are typically set out as direction of travel movements such as “reductions in” or “increases in” rather than specific targets.
- In the March 2019 report available on the PFCC website, performance indicators in five of the seven police and crime plan priorities showed a deterioration in the direction of travel. Where there is deterioration in the direction of travel there is evidence of further investigation to understand the causal factors.
- The increased volumes of certain crimes in Essex reflects trends happening at a national level. Furthermore, as explained by the ONS in relation to Domestic abuse incidents; *“Given the different factors affecting the reporting and recording of these offences, the police figures do not provide a reliable measure of current trends”*.
- Arrangements to report and monitor the PCP are well established at Essex. Public reporting against the PCP is found to be transparent and easily digested.

There are arrangements in place to deliver the Police and Crime Plan across a complex partnership structure. Measures are in place against which progress is assessed and there is effective and transparent reporting of progress in place.

We are satisfied from the work performed that sufficient arrangements are in place, and were in place during 2018/19, to mitigate the risk identified.

Police and Crime Plan Priorities	Police Priority Indicators	12 months to March 2018	12 months to March 2019	Number Difference	% Difference	Direction of Travel
More local, visible and accessible policing	Percentage of people who have confidence in policing in Essex ¹	-	68.0	-	-	-
	Confidence Interval ²	-	1.1			
	Confidence in the local police (CSEW) ³	47.9	50.4	2.5	-	Improving
	Confidence Interval ²	5.6	4.3			
Crack down on anti-social behaviour	Number of all crime offences	134,185	158,689	24,504	18.3	Deteriorating
	Number of anti-social behaviour incidents	49,329	46,441	-2,888	-5.9	Improving
	Percentage of people who have confidence that the policing response to ASB is improving ⁴	69.0	67.0	-2.0	-	Stable
Breaking the cycle of domestic abuse	Confidence Interval ²	1.1	1.1			
	Number of incidents of domestic abuse	34,992	41,840	6,848	19.6	Deteriorating
	Number of repeat incidents of domestic abuse	15,026	19,133	4,107	27.3	Deteriorating
Reverse the trend in serious violence	Percentage of domestic abuse offences solved	17.7	12.9	-4.8	-	Deteriorating
	Number of homicides	24	14	-10	-41.7	Improving
	Number of violence with injury offences (new definition from Nov 2017)	13,704	14,731	1,027	7.5	Deteriorating
Tackle gangs and organised crime	Number of Organised Criminal Group disruptions ⁵	-	16	-	-	-
	Trafficking of drugs arrests	1,337	1,498	161	12.0	Improving
Protecting children & vulnerable people	Number of child abuse outcomes ⁶	289	200	-89	-30.8	Deteriorating
	Child abuse solved rate	9.4	5.3	-4.1	-	Deteriorating
Improve safety on our roads	Number of driving related mobile phone crime on Essex roads	2,589	2,603	14	0.5	Deteriorating
	Number of driving under the influence of drink and/or drugs on Essex roads	2,221	3,024	803	36.2	Deteriorating
	All people killed or seriously injured (KSI) in road collisions ⁷	923	925	2	0.2	Stable

Financial strategy and long term sustainability

2018/19 outturn

In your 2018/19 outturn report you are reporting a marginal net underspend position of around £0.373m on the combined Force and PFCC revenue budgets, against annual operating expenditure, before statutory adjustments of over £313m. The most significant overspends on the Force budget included police officer pay and allowances (£3m). This was offset by lower than budgeted spend on supplies and services (£1.5m), and lower spend on police staff pay and allowances (£2.5m).

The increased pay costs is reflective of the fact that, despite the challenges faced, as a result of savings made you have succeeded in rebuilding police officer and staff establishment numbers in 2018/19 (increase of circa 150 FTE). You have also budgeted to do so again in 2019/20 (increase of circa 215 FTE), as you are conscious that this will help to ensure consistent operational performance in the face of increasing demand pressures and crime levels which are arising across the sector. Critical to the ongoing sustainable success of this policy will be the ability to accurately forecast demand and deploy resources effectively to cover both responsive and preventative actions.

Capital investment in year was strong at £8.2m, £3.8m above budget. The variance was as a result of higher than budgeted spend on I.T, particularly mobile technology to enable business change.

Unlike many other organisations from across the sector, your capital investment in 2018/19 (£8.2m) exceeded your initial approved capital programme. Additional capital investment was identified and approved during the year which resulted in a £3.8m variance in capital spend to budget. The variance to budget of (£3.8m) was as a result of higher than budgeted spend on I.T, particularly mobile technology to enable business change. Reductions in, and scarce availability of, capital funding from central sources has been prevalent across the sector in recent years. Despite this, you are conscious that capital investment and innovation are key to continuing to evolve in line with the rapid changes in the environment in which you are operating, and have set a challenging medium-term capital plan of £86m to 2023/24, including significant investment in estates and IT projects.

The achievement of your budget in-year is testament to the robust financial management practices which are embedded within the organisation. It is clear that variations in the outturn from budget are aligned to your operational priorities and supported by informed decision-making as circumstances arose and funding clarified throughout the year. This is supported by your most recent HMICFRS assessment, where all three PEEL criteria were assessed as 'good'.

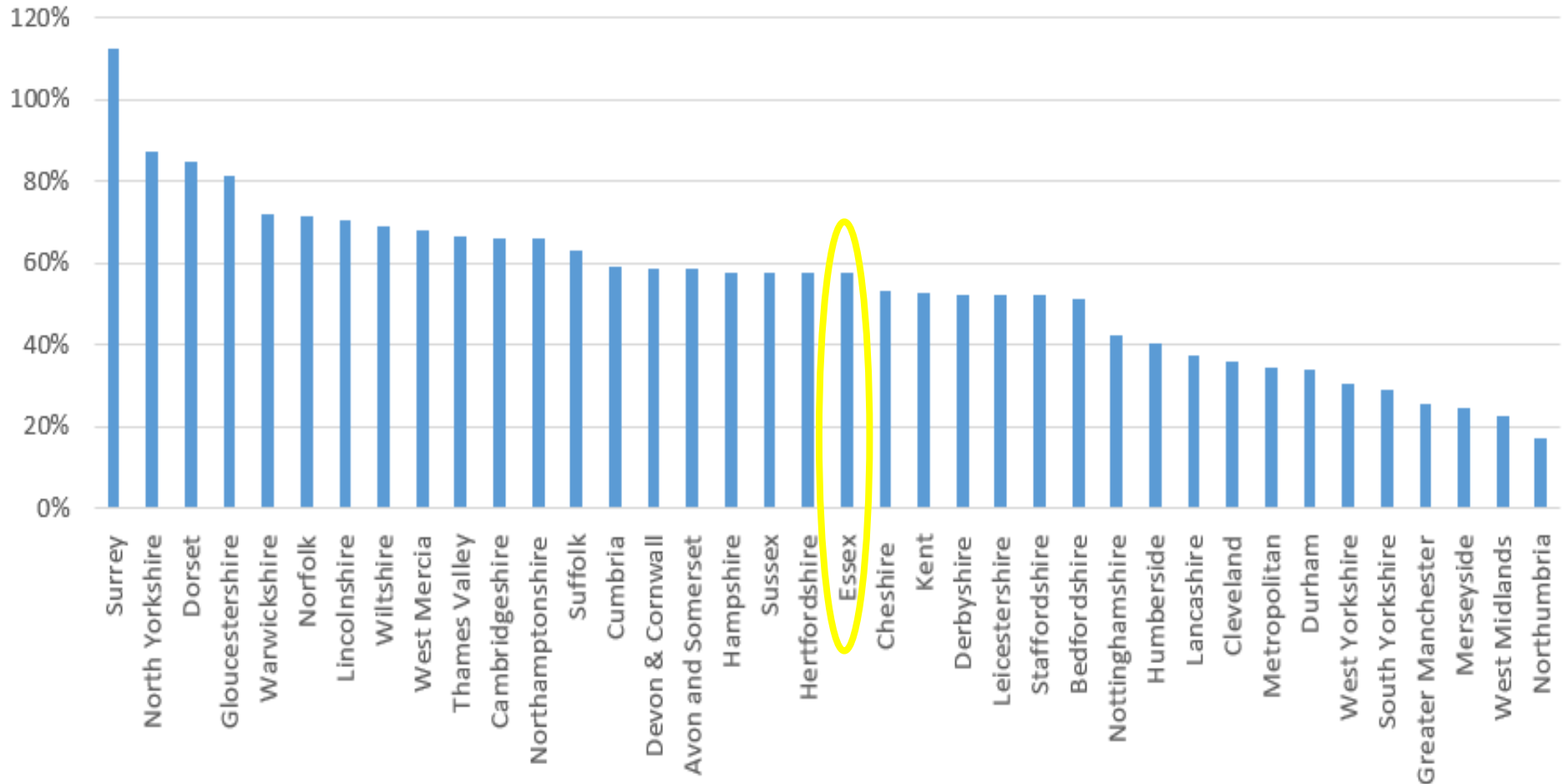
2019/20 and medium-term budget

In February 2019, the PFCC approved an increase of £23.94, just shy of the £24 maximum permissible increase to the Council Tax precept for a Band D property. Given this, it remains important with regard to maintaining credibility with the population you serve that budgets are effectively managed and visible investment in and improvement to services is made. The Council Tax increase is expected to secure revenue of £123.0m for 2019/20, an increase of £15.0m, with assumptions around growth in the Council Tax base and shares of collection fund surpluses built in.

Your ability to raise Council Tax income is limited by the Council Tax base in the region which you serve. Based on our research, your precept to grant income ratio is in line with the national average circa 60%, as illustrated by the graph over the page:

Financial strategy and long term sustainability

2018/19 Council Tax funding (precepts) as a percentage of the Police Grant

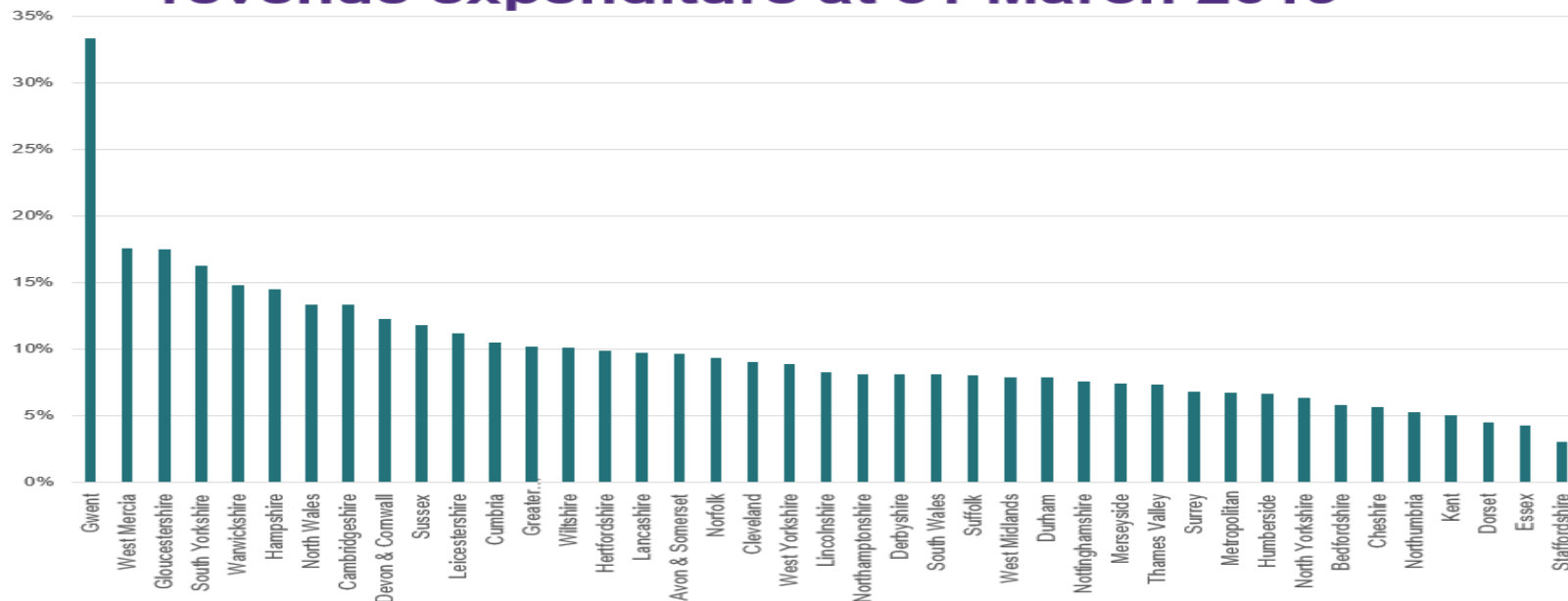


Financial strategy and long term sustainability

The police finance settlement was confirmed in January 2019 and saw a small increase in your total funding available from central government grants. This represents the first increase in central government funding available to police forces since the beginning of austerity in 2010. The majority of the increase, however, will be used to fill additional pension costs as a result of the rise in employer contributions from 2019/20 to 31%. The specific home office pension grant represents £2.9m of revenue for you in 2019/20 but there is uncertainty into the medium term whether this will be recurrent. There is potential that the current Comprehensive Spending Review may be further delayed due to the potential change in government as a result of the Conservative party leadership contest, and the UK's departure from the European Union.

You have set a balanced budget for 2019/20 with a planned reserves use of £500k. This is to offset costs in relation to your estates investment. In future years to 2024/25, you are forecasting shortfalls of £17m after a further £5m usage of usable revenue reserves (£15.5m as at 31 March 2019). As illustrated by the graph below, you hold the second lowest level of useable reserves of all Forces in the country. Your ability to use reserves to fund ongoing operational expenditure is extremely limited and not a financial sustainable solution in the medium term. However, from our discussions with officers, management are aware that the use of prior years surpluses in this way is not sustainable. There is evidence that when reserves are being used they are directed towards key strategic priorities such as community safety, investment in neighbourhood policing, and I.T, and this is built in to your planning process.

Total usable reserves as a percentage of gross revenue expenditure at 31 March 2019



Financial strategy and long term sustainability

Future assumptions and savings plans

Whilst the generic assumptions built into your Medium-Term Financial Strategy (MTFS) in relation to key elements such as precept and settlement increases are prudent, you acknowledge that realisation of this is predicated on the achievement of the success of a series of significant savings plans. This includes £4.8m in the current year (2019/20) and £17m in the following four years. Currently, all of the £4.8m is identified. Within the £17m, you have identified £5.4m in your Strategic Change Savings Efficiencies Plan. From review of your MTFS, there is also evidence that you are tracking both cashable and non-cashable benefits. This is good practice and demonstrates the growing maturity of your benefits realisation arrangements and how it aligns with your MTFS.

Overall the MTFS is based on reasonable assumptions. Where there is uncertainty, the MTFS seeks to mitigate this by taking a prudent position. However, when faced with significant uncertainties, traditional top down MTFS budgeting arrangements become less effective in securing value for money over the long term. In recent years parts of the sector have been able to secure a better than expected funding position. Whilst this has been very welcome it has resulted in unanticipated funds being available for use, often late or at the end of the financial planning process. It is important that financial planning arrangements include elements of scenario planning, in particular about the potential upside and downside risks to funding. This includes considering not only what the potential funding envelope might be in a given scenario, but also what the potential response might be in terms of investments and/or savings. This enhanced scenario planning may support you in responding to the current uncertainty about future funding with some cautious optimism. It may also help to provide a framework to deal with situations where additional funds are made available, and help the organisation is it shifts from the question of “how many officers can we afford?” to a business led by the question “how many officers do we need?”

Conclusion

It is important you continue to strengthen scenario planning arrangements in light of the future funding uncertainties. Scenario planning arrangements should include plans for ‘better than expected’ which should be supported by a pipeline of investment projects that can be prioritised as and when funds are available.

We are satisfied from the work performed that sufficient arrangements are in place, and were in place during 2018/19, to mitigate the risk identified.

Transformation programme and benefits realisation

Transformation programme

- You have in place a strategic change programme which aims to transform the way policing is delivered to Essex. The programme focuses on business need and emphasises the greater use and deployment of technology to improve the effectiveness of policing and outcomes. Benefits from this programme are already starting to become embedded with the roll out of Body Worn Video and other mobile policing devices.
- As part of a collaboration with Kent, the Digital Transformation Oversight Board provides strategic governance related to digitally enabled operations and services. The board meets quarterly with a remit to map out the digital landscape nationally, regionally and at local levels. Given the ever increasing demands on policing services, it is important that the digital vision remains business led rather than I.T led.
- You are focusing heavily on transformation through data-driven insights, working with partner organisations to drive benefits from increased data sharing, with a view to identifying and responding upstream to effect prevention initiatives and reduce subsequent demand. You are aware of the ethical implications of this, and taking a mature and responsible approach, setting up an Ethics committee to consider these issues and ensure governance in this area is a key focus.

Benefits realisation

- Over the past 12 months, arrangements to identify and monitor benefits realisation have continued to improve. We have seen evidence of an increasing amount of rigour being applied to benefits management and realisation. The force has made important progress in developing and testing its approach to delivering transformation benefits. Two good examples include Mobile first and Body Worn Video (BWV). Both these programmes demonstrate the ability of the force to deliver the approach set out in the benefits framework.
- We reviewed the Mobile First benefits realisation review. This tracked the benefits set out in the original business case (OBC) – both financial and non-financial. It was also supported by a detailed benefits register. There was evidence of good practice in terms of benefits realisation and the challenge now is to ensure this level of rigour and governance is applied consistently across the portfolio.
- Essex Police has a decent track record in relation to delivering change projects. There is however significant opportunity to improve operational accountability and delivery of change benefits post implementation. One of the keys to unlock operational accountability relates to the culture of the organisation. There is evidence that, as a force, your organisational understanding of business change and benefits realisation is maturing. This is best understood at the SLT level and the challenge is now for this to distil through your organisation.
- It is important to recognise, over the years, continued efficiencies savings has not only had a financial impact on your organisation but has also impacted your culture. Whilst staff surveys do demonstrate that you have a workforce that is motivated to make a real difference to communities, continued budget cuts or, at least, perceived budget cuts have impacted on the cultural environment.. One of the keys to unlocking the benefits of transformation and business change is driving engagement, buy-in and ownership to the future vision and opportunities. The new Chief Constable has consciously focused on this area, engaging widely with the organisation with the '5,500 conversations' and the plan on a page, setting out a roadmap for the future within which future transformational change can take place. There is also the 'feelgood factor' generate from the recruitment of additional officers, which creates a more positive environment of a growing organisation, rather than a shrinking one. Over the past 12 months we have seen a real surge in activity with respect to revamping the vision for Essex Police which has a focus on not only 'what' you do but 'how' you do it. This positions you well for future success.

Transformation programme and benefits realisation

Benefits realisation....*continued*

- It is evident that you have carefully considered how to reinvigorate your organisation to modernise and become forward looking. Your arrangements to identify and monitor benefits continue to mature and our review of BWV and Mobile First demonstrates good practice in this area. The challenge is now to ensure this is being applied consistently and you embed the appropriate business change framework and culture to deliver the benefits, both financial and non-financial.
- A strong vision for the future is essential, to enable ongoing transformation to be developed within a narrative that engages 'hearts and minds' and provides a direction of travel for future transformation programmes to drive efficiencies, new ways of working and cultural change. Of significant risk is the capacity of senior leadership, which will need to be able to devote sufficient, significant time to this agenda whilst at the same time continuing to respond to a variety of business as usual challenges, including rising crime levels and levels of demand, including demand driven by shortfalls in other sectors. Your work to date, setting out the future of the organisation, is essential in driving embedded change owned across the Force, whilst continuing to respond to the existing challenges.
- Clearly identified and articulated benefits, set out in well documented business cases, with early articulation of the 'story to be told' are essential if the anticipated benefits are to be realised and expenditure on transformation to be deployed efficiently and productively. A thorough understanding of the critical path analysis and interdependencies will also be key to minimise the impact of slippage and enable effective prioritisation of delivery. Transparent and effective oversight at the appropriate level, which is neither stifling to on-the-ground innovation, engagement and ownership, nor too remote to identify early problems, remains key, both in the development and deployment of effective change, and also in communicating with confidence and assurance to the PFCC and wider public the journey the Force is on and the outcomes and benefits hoping to be achieved.

Governance arrangements for partnership working

Collaboration:

- Essex Police has a rich history of collaboration; working with partners is something you consider has become embedded in your business planning strategy. You have a number of major partners with whom you are engaged in collaborative arrangements, including 'Athena' with nine forces or the 'Joint Support Services Directorate' with Kent Police. You also partake in the '7-forces' collaboration work and hope to drive greater benefit from this framework in the medium to long term.
- Based on our discussions with relevant officers, whilst initial progress with the 7-force collaboration has been slower than hoped for, it is now starting to deliver, with a number of joint procurements agreed. The 7 force collaboration is a complex decision making vehicle, bringing together 14 corporations sole. There is some risk that opportunities to drive savings are missed or delayed as a result of the number of bodies around the table. Long term effectiveness of this collaboration will only be seen once cultural shifts take place with the sharing of sovereignty across forces that is required to truly realise economies of scale across all seven forces.
- Essex Police is part of a Violence Reduction Unit. This brings together a wide range of agencies, including Mental Health Trusts, Ambulance, Local Government and Policing, to work together to reduce violence. We are seeing these vehicles being set up elsewhere in the country. Given violence reduction is a key part of the Police and Crime Plan, it is important that the work of the PFCC and the VRU support each other. Arrangements need to be in place to reduce overlap and to ensure alignment where possible.
- Essex Police also has a strong relationship with higher education, in particular, working together to understand how best to leverage data to improve better outcomes for communities. Essex Police is a force right at the forefront of 'Big Data'. The key challenge is how to best leverage and operationalise insights gained from this analysis. Governance arrangements to oversee work on 'Big Data' has been strengthened by the establishment of an Ethics committee. There are potentially large benefits and substantial improvements in outcomes available, but these are dependent on ensuring the right skill sets for data analysis are in place, and that governance is robust and effective in this area. Arrangements, and developments in this area as a whole, are new and emerging. Early thinking is promising, but many of the detailed arrangements are yet to be established, and it is too soon to assess the effectiveness of the plans and early arrangements in place.
- We will continue to review progress as you develop your early stage arrangements in the Insights area.

Governance arrangements for partnership working

The direction of travel is positive. However, as a point in time assessment, the arrangements to monitor and deliver the benefits as set out in the original business case for collaboration with Fire are not yet fully effective

Police and Fire collaboration business case – arrangements to track the benefits

- In May 2017, the PFCC submitted a business case to the Home Office for joint governance of Police and Fire within Essex. The business plan sets out anticipated financial savings of £31.6m over a 10 year period, see extract beside. We note that the total NPV of £31.6m includes 0.9m for programme management costs. The business case included an assumption that under the governance model the realistic expectation was for 50-75% of the benefits to be achievable. The benefits in relation to the business case are deliverable by the PFCC across Police and Fire.
- Governance of the delivery of collaboration benefits takes place at the Essex Emergency Services Collaboration Strategic Governance Board (ESCSB). This meeting brings together the PFCC, the Chief Constable and the Chief Fire Officer, amongst others, to discuss collaboration.
- During 2018/19 we have seen evidence that the arrangements to monitor delivery against the original business planning have begun to mature. A benefits register has been established. This brings together all of the benefits of programmes of work and tracks them against the business areas set out in the OBC. A summary from the latest benefits register dashboard is set out on the next page.
- Whilst arrangements are improving, as a point in time assessment, the arrangements to monitor and deliver the benefits as set out in the original business case could be further enhanced. There is scope to bring together strategic financial and business planning within both organisations and the work of the collaboration team within the PFCC.

Area of business benefit	Short-term	Medium-term	Long-term	Non-financial benefits	10 year Net Present Value (NPV)
Better working together to improve public safety	●			Public safety, such as through reducing offending, or helping the vulnerable to feel safer in their homes) Effectiveness through joined-up service delivery between police, fire and other partners, and improved public access online	£4.3m
Sharing of estates				Greater effectiveness in collaborative working and an enabler of wider collaboration	£10.1m
• OPCC move to Kelvedon Park	●				
• HQ functions		●			
• Operational emergency services centre		●			
• Better use of stations / front desk		●	●		
• Facilities management		●			
Enabling shared business services providing key support functions (e.g. HR, Finance, IT)		●		Joined up systems enable further collaboration and economies of scale. Taking the best from both organisations means that supporting services are more effective, benefiting operational activities	£5.9m
• Shared ERP platform		●			
• Fleet management		●			
Joint procurement initiatives	●	●		Enables wider collaboration	£2.3m
Further operational collaboration		●	●	Further public safety improvements	£9.0m
• Control Room		●		Effectiveness, such as quicker responses to emergency calls that require multi-agency response	
Total NPV:					£30.8m³

Governance arrangements for partnership working

Based on the latest benefits dashboard, virtually no programmes of work have been identified in three of the five key areas set out in the original business case.

- From our discussions with officers across the OPFCC, Essex Police and Essex Fire, there was a shared view that progress on collaboration has been slow. Whilst progress has been made in some areas, there are a number of key barriers and challenges to unlocking all of the benefits set out in the original business case.
- The original business case made a number of assumptions which in reality are very difficult to overcome. In particular, some of the assumptions around enabling services and I.T. are proving very challenging to make any headway on.
- However, the business case benefits were arrived at following a robust evaluation process with external consultancy support. The lack of progress in being able to realise these benefits needs consideration, and suggests arrangements may need to be strengthened and/or the assumptions in the original business case were not fully thought through. Whilst driving change is always challenging in any organisation, the development of the Fire and rescue plan may provide an opportunity to provide fresh impetus into the purpose and direction of travel of the Authority, with a view to integrating these anticipated benefits into the wider forward looking delivery and business plan. Where potential benefits conflict with existing collaboration initiatives in place, these should be considered further to understand whether the £31.6m really is deliverable.
- It is also important to understand the underlying causes behind the programme benefits being significantly lower than anticipated benefits in the OBC. Causal factors may include changes in the nature of risk and demand which renders existing business case assumptions obsolete. However, they may also be indicative of a resistance to change which could be impeding progress. It is important to identify change agents who can 'sell the vision' and drive the identification and delivery of anticipated benefits at the appropriate pace.
- You will need to consider how you report to the public and wider stakeholders progress against the original business case. As the arrangements to monitor delivery continue to mature internally, you will need to consider how best to leverage these to report externally.

Recommendation: The arrangements to identify and quantify cashable benefits in relation to collaboration programmes is not yet fully effective. Where cashable benefits are identified from collaboration, these need to be embedded within the medium term financial plans of Essex Police and Essex Fire. There is currently a disconnect between the work of the collaboration team within the PFCC and the arrangements for strategic financial planning within both organisations. Benefits in relation to OBC are deliverable by the PFCC across Police and Fire

Area of business benefit	Financial benefits per OBC over 10 years	Programme benefits identified over 10 years	Variance	Management's assessment
Better working together to improve public safety	£4.3m	£13.1m	£8.8m	Green
Sharing of estates	£10.1m	£1.5m	(£8.6m)	Amber
Enabling Shared Business Services providing key support functions (e.g. HR, Finance, IT)	£5.9m	£0.06m	(£5.84m)	Red
Joint procurement initiatives	£2.3m	£0.240m	(£2.06m)	Red
Further operational collaboration	£9m	£0	(£9m)	Red
Total	£31.6m	£14.9m	(£16.7m)	

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 December 2017 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 – financial statements

We have identified 2 recommendations for the Group, PFCC and Chief Constable as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Relevant to	Recommendations
1 	<p>SAP General Ledger Codes</p> <p>As part of our work on the general I.T. control environment we identified a number of SAP general ledger codes where management were unable to provide detailed transaction listings</p>	<ul style="list-style-type: none"> Group, PFCC and Chief Constable 	Review your general ledger to ensure it is configured appropriately to ensure a complete audit trail of all transactions can be reported has been raised.
2 	<p>Revaluation process</p> <p>As part of our work on revaluations we identified you had no process in place to assess whether there was a material difference between the carrying value of assets not revalued in year and their estimated current value.</p>	<ul style="list-style-type: none"> Group, and PFCC 	Review your annual revaluation process to ensure you consider whether the carrying value of your assets as at the balance sheet date are materially different to the current value.

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan – value for money

We have identified two recommendations for the Group, PFCC and Chief Constable as a result of issues identified during the course of our value for money audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit.

	Assessment	Relates to	Recommendation
1	●	PFCC	<ul style="list-style-type: none"> The arrangements to identify and quantify cashable benefits in relation to collaboration programmes is not yet fully effective. Where cashable benefits are identified from collaboration, these need to be embedded within the medium term financial plans of Essex Police and Essex Fire. There is currently a disconnect between the work of the collaboration team within the PFCC and the arrangements for strategic financial planning within both organisations.
2	●	PFCC and CC	<ul style="list-style-type: none"> It is important you continue to strengthen scenario planning arrangements in light of the future funding uncertainties. Scenario planning arrangements should include plans for 'better than expected' which should be supported by a pipeline of investment projects that can be prioritised as and when funds are available.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>1 We identified that the PFCC and Group balance sheets included £2,147k of monies held on behalf of third parties, within 'Cash and Cash Equivalents', with a corresponding entry within 'Short Term Creditors'. These monies pertained to the PFCC's right to retain monies from individuals under investigation, in respect of the Proceeds of Crime Act, Drug Trafficking Offences Act, Misuse of Drugs Act and Police Property Fund Act.</p> <p>These monies should not be held on the PFCC or Group balance sheets as either assets or liabilities, since they do not represent genuine assets or liabilities of the PFCC or Group. The cash should be held in a separate bank account and should not be used as working capital or for treasury management purposes.</p>	PFCC and Group	0	Cash: (£2,147k) Short term creditors: £2,147k	0
<p>2 Impact of the McCloud pensions ruling Management requested estimates from their actuaries of the potential impact of the McCloud ruling. The actuary's estimate for the Police Pension Scheme was of a possible increase in past service cost and overall pension liabilities of £95.6m. For the Local Government Pension Scheme, the actuary's assessment of the impact was of a possible increase in past service cost and overall pension liabilities of £5.7m.</p> <p>This will result in changes to the draft Chief Constable, PFCC and Group 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 and explanatory note, Adjustments between Accounting Basis and Funding Basis under Regulation, Unusable Reserves and Defined Benefit Pension Schemes.</p>	PFCC, CC and Group	101,372	(101,372)	101,372
Overall impact		101,372	101,372	101,372

Audit Adjustments

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 omission	Relates to	Detail	Adjustment agreed?
Essex Chief Constable Narrative Report	Chief Constable	Essex Chief Constable's draft narrative report did not satisfy two CIPF code disclosure requirements. The issue was raised with management and the disclosure was revised. We have reviewed the revised disclosure and we are satisfied that it now satisfies all relevant requirements.	✓
Grant income credited to CIES disclosure	PFCC and Group	The figures included in your draft accounts within note 15 'Grant income credited to services' did not agree to your trial balance. The figures have been amended by management. To be clear, there is no impact on the CIES as a result of this adjustment, this is just a disclosure error.	✓
AGS included within the Chief Constable's accounts	Chief Constable	In the draft statement of accounts, the Essex Chief Constable's accounts did not include an AGS. Essex Chief Constable and the PFCC prepare a joint AGS however this was only included in the PFCC statement of accounts. As the Essex Chief Constable's accounts need to be stand alone, the joint AGS has now been included in the Essex Police's accounts to ensure that CIPFA Code requirements are met. Minor amendments have been made to the joint AGS such that it is appropriate for the Essex Chief Constable's accounts.	✓
Financial instruments – IAS 19 Liability	PFCC and Group	The IAS 19 pension liability (£3,147m) has incorrectly been included as a financial instrument in 2018/19 and 2017/18 in your disclosure note. Management has now removed this.	✓
Notes to the cashflow statement – investing activities	PFCC and Group	Through our work on the MIRS, we highlighted that in Note 28 – Investing Activities, Capital Receipts from Sale of Non-Current Assets of £13.2m did not agree to the expected balance included in Note 30 Adjustments between accounting basis and funding basis of £12.2m. The finance team were able to identify that there was an incorrect debtor balance of value £1.159m included within this line, therefore overstating the Capital Receipts from Sale of Non-Current Assets. This was incorrectly classified and therefore removed and reclassified as 'Other Receipts from Investing Activities'. As a result, there was no overall impact on the net cash flows from investing activities.	✓
Minor presentational changes	PFCC, CC and Group	A number of other minor presentational amendments were made to the draft financial statements which management have updated for in the final draft.	✓

Audit Adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatements

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements

Fees

We confirm below our proposed fee per the audit plan and our final fee

Audit Fees

	Proposed fee	Final fee
PFCC Audit	12,000	TBC
Chief Constable Audit	31,896	TBC
Total audit fees (excluding VAT)	£43,896	£TBC

The fees reconcile to the financial statements. Additional work has been required in respect of changes to pension liabilities following the McCloud judgement, gaining assurance over your property, plant and equipment valuations, and in obtaining evidence where your ledger settings did not allow detailed transaction listing to be provided. We will confirm the final fee following the conclusion of the audit

Non Audit Fees

No non-audit or audited related services have been undertaken for the PFCC or Chief Constable.

Audit opinion

We anticipate we will provide the PFCC with an unmodified audit report

Audit opinion

We anticipate we will provide the Chief Constable with an unmodified audit report



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