

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

Year ended 31 March 2019
December 2019



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Executive Summary

Purpose

Our Joint Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the Police, Fire and Crime Commissioner for Essex (the PFCC) and the Chief Constable for Essex (the Chief Constable) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the PFCC, Chief Constable and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Joint Audit Committee in our Joint Audit Findings Report on 26 July 2019.

Our work

Materiality	We determined materiality for the audit of the group, PFCC and Chief Constable's financial statements to be £6,038,000, which is approximately 2% of the Chief Constable's gross revenue expenditure.
Financial Statements opinion	We gave unqualified opinions on the group and PFCC and Chief Constable's financial statements on 30 July 2019.
Whole of Government Accounts (WGA)	In August 2019 the NAO informed the PFCC and Chief Constable that they were now required to produce and submit a consolidation return. We are required to complete work on the group's consolidation return following guidance issued by the NAO as the group exceeds the audit thresholds. This work has now been completed.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the PFCC and Chief Constable each put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources. We reflected this in our audit reports to the PFCC and Chief Constable on 31 July 2019.
Certificate	We certify that we have completed the audit of the accounts of the PFCC and the Chief Constable in accordance with the requirements of the Code.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give opinions on the group and PFCC and the Chief Constable financial statements (section two)
- assessed the PFCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources (the value for money conclusions) (section three).

In our audits of the group, PFCC and the Chief Constable financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group and PFCC and Chief Constable's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group, PFCC and Chief Constable financial statements to be £6,038,000, which is approximately 2% of the Chief Constable's gross revenue expenditure. We used this benchmark as, in our view, users of the financial statements are most interested in where the organisations have spent their revenue and budget allocations in the year.

We set a lower threshold of £302,000, above which we reported errors to the Joint Audit Committee in our Joint Audit Findings Report.

The scope of our audit

Our audits involve obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report, the joint annual governance statement and the summary accounts published alongside the financial statements to check they are consistent with our understanding of the PFCC and Chief Constable and with the financial statements on which we gave our opinions.

We carry out our audits in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach was based on a thorough understanding of the PFCC and Chief Constable's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risk identified in our Joint Audit Plan	Relevant to PFCC or Chief Constable?	Findings and conclusions
<p>Valuation of net defined benefit pension 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>	<p>Group and Chief Constable</p>	<p>We:</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>The draft financial statements were updated to reflect the additional liability on the Police Pension Schemes for Essex in respect of the McCloud / Sargeant ruling, which increased the year end net pension liability by £95.6m. This increase was also reflected as an additional charge through the Comprehensive Income and Expenditure Statement.</p> <p>A similar adjustment was made for the impact of this ruling on the Local Government Pension Scheme liability. The increase in liability for the LGPS element was £5.7m.</p>

Audit of the Financial Statements

Risk identified in our Joint Audit Plan	Relevant to PFCC or Chief Constable?	Findings and conclusions
<p>Valuation of land and buildings 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>	<p>Group and PFCC</p>	<p>We:</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 additional assurance was required 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. As part of the rolling valuation processes, there was 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. We assessed the reasonableness of assumptions used by management's valuer in this exercise and compared indices to those provided by our auditors' expert. We were able to gain assurance that there was no material misstatement in respect of asset valuations.</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 the balance sheet are not materially different from the current value.</p> <p>Apart from the issue detailed above, our audit work did not identify any significant issues in respect of the valuation of land and buildings.</p>

Audit of the Financial Statements

Risk identified in our Joint Audit Plan	Relevant to PFCC or Chief Constable?	Findings and conclusions
<p>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.</p> <p>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 CC</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>Apart from the issue detailed above, our audit work has not identified any significant issues in respect of the risk.</p>

Audit of the Financial Statements

Audit opinion

We gave unqualified opinions on the group and PFCC and the Chief Constable's financial statements on 30 July 2019.

Preparation of the financial statements

We were presented with draft financial statements in accordance with the national deadline alongside a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audits to the Joint Audit Committee on 26 July 2019.

Our audits identified two recommendations for management. Both have been accepted by management. Refer to appendix B for details.

Joint Annual Governance Statement and Narrative Report

We are required to review the Joint Annual Governance Statement and Narrative Reports. The PFCC and Chief Constable published them on their websites in line with the national deadlines.

They were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that the documents were consistent with the financial statements prepared by the group and PFCC and Chief Constable and with our knowledge of the entities.

Whole of Government Accounts (WGA)

In August 2019 the NAO informed the PFCC and Chief Constable that they were now required to produce and submit a consolidation return. We are required to complete work on the group's consolidation return following guidance issued by the NAO as the group exceeds the audit thresholds. This work has now been completed.

Certificate of closure of the audit

We certify that we have completed the audit of the accounts of the PFCC and the Chief Constable in accordance with the requirements of the Code.

Value for Money conclusion

Background

We carried out our reviews in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work

The risks we identified and the work we performed are set out below and on the next few pages.

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Police and Crime Plan 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. In the latest performance report available on the PFCC website (August 2018), performance indicators in five of the seven police and crime plan priorities showed a deterioration in the direction of travel.	We have assessed arrangements in place to deliver the plan across a complex partnership structure. We also assessed the arrangements in place to identify measures against which to assess progress and report effectively and transparently to stakeholders and the public	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 were satisfied from the work performed that sufficient arrangements are in place, and were in place during 2018/19, to mitigate the risk identified.

Overall Value for Money conclusions

We are satisfied that in all significant respects the PFCC and the Chief Constable each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial strategy and long term sustainability</p> <p>Police funding continues to be stretched with increasing cost pressures and complexity. The NAO reported in September that in real terms, central government funding for Forces had fallen by 30% since 2010/11, this being during a period when crime rates have been on the rise.</p>	<p>We have reviewed updates to your medium term financial strategy, assessed the gaps in savings requirements, and assessed the extent to which your financial plans are aligned with realistic outcomes from the transformation programme and benefits realised, as well as the reasonableness of assumptions underpinning the strategy.</p>	<p>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'.</p> <p>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). 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.</p> <p>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?"</p> <p>We were satisfied from the work performed that sufficient arrangements are in place, and were in place during 2018/19, to mitigate the risk identified.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Transformation programme and benefits realisation</p> <p>A significant proportion of the discretionary investment spend and planned savings within your medium term forecast relates to change and transformation programmes within the organisation. This in turn depends on planned benefits from transformation being realised in line with business case forecasts.</p> <p>Delivery of financial and non financial benefits is key to your transformation success and long term financial sustainability.</p>	<p>We have assessed how well you identify and measure financial and non-financial benefits in relation to your transformation programme.</p>	<p>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.</p> <p>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.</p> <p>We were satisfied from the work performed that sufficient arrangements are in place, and were in place during 2018/19, to mitigate the risk identified.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Governance arrangements for partnership working</p> <p>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. Given that these arrangements are critical to your long-term financial and operational sustainability, the need to have effective governance arrangements to oversee, monitor, scrutinise and deliver expected benefits could not be underestimated. You also partake in the '7-forces' collaboration work and hope to drive greater benefit from this framework in the medium to long term.</p> <p>In addition to this, The PCC for Essex became the first commissioner to assume responsibility of both Police and Fire in the area, becoming the UK's first Police, Fire and Crime Commissioner. You have already begun to identify where there is the potential for improving economy, efficiency and effectiveness across all organisations by working together.</p>	<p>We have assessed the effectiveness of governance arrangements supporting your working with partners to deliver expected benefits, and the extent to which the benefits outlined in the business case for change for collaborating with Fire have been realised.</p>	<p>The direction of travel is positive. The arrangements to monitor and deliver the benefits as set out in the original business case for collaboration with Fire are good, although could be enhanced further. There is scope to bring together strategic financial and business planning within both organisations and the work of the collaboration team within the PFCC.</p> <p>We were satisfied from the work performed that sufficient arrangements are in place, and were in place during 2018/19, to mitigate the risk identified.</p>

A. Reports issued



We confirm below our final reports issued for the audit and confirm there were no fees for the provision of non audit services.

Reports issued




Report	Date issued
Audit Plan	February 2019
Audit Findings Report	July 2019
Annual Audit Letter	December 2019

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.

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



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