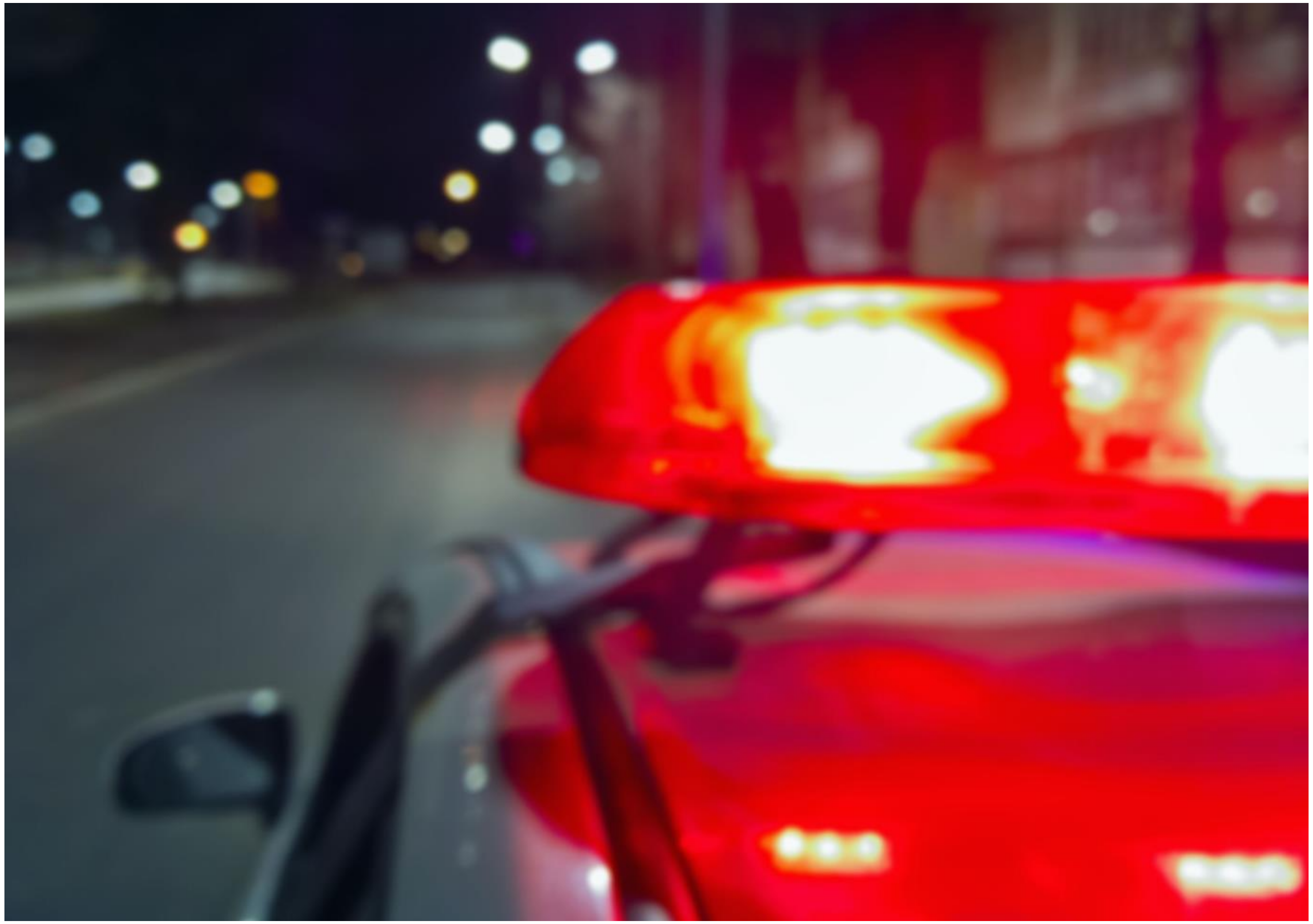
The Joint Audit Findings for Essex Police, Fire and Crime Commissioner and Chief Constable

Year ended 31 March 2022

February 2023



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

1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of Essex Police, Fire and Crime Commissioner ('the PFCC') and Essex Chief Constable and the preparation of the PFCC's and Chief Constable's financial statements for the year ended 31 March 2022 for the PFCC and Chief Constable.

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 financial statements:

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

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

Commentary on the audit process

As agreed with management, the final accounts audit began at the end June and was scheduled to last until the end of September. We agreed to start at the end of June rather than the beginning of the month as it gave your finance team the time they needed to produce all the required working papers. Whilst some of the working papers were made available at the end of June, some key working papers to enable sample selection didn't become available until mid-way through July which slowed the audit down. Equally, response times to our audit queries were not as timely as they had been in previous years. The reason why your finance team were unable to fully service the audit in a timely manner was a matter of capacity. Despite the capacity challenges, members of your finance team have worked hard to provide the information we have requested and except for your PPE disclosures, the draft financial statements submitted for audit were of good quality.

In addition to the challenges set out above, this year, the group became a 'Major Local Audit'. A Major Local Audit is one where gross revenue expenditure exceeds £500m and the group crossed this threshold for the first time in 2021-22. As a Major Local Audit, it becomes 'in scope' for Financial Reporting Council (FRC) review. In line with our firm's risk and quality requirements, the audit was subject to additional procedures including a financial reporting review of the accounts by our central technical team.

As we entered September, because of the combination of the issues set out above, it became clear that the audit process would not complete by the end of September as planned. In response, we secured additional resource in October and November by reallocating people from planned audit work on different clients to continue to service Essex Police, the PFCC and the group audits. Equally, your finance team reprioritised work to ensure they were able to respond to our queries during this time.

Going forward, additional capacity and resilience is required within your finance team to ensure both entities can produce materiality accurate accounts and service an audit that meets the statutory deadline.

Summary of key findings and headlines

Details of our findings are summarised on pages 6 to 23. We identified one adjustment to the draft accounts published on 28 July relating to the accounting of the valuation movement on your HQ site. The net adjustment of £7 million reduces your revaluation reserve with the credit entry running through your CIES as a gain. Note however that the gain is removed in the MIRS so there is no net impact on the General Fund. The error arose because our review found that there were some assets in your assets register, one of which being your HQ site, had both a revaluation reserve as well as a memorandum 'impairment reserve'. In only exceptional circumstances is it appropriate for an asset to have both and upon management's review, they have formed a judgement to correct for the error. More details are set out on pages 12 and 14.

In addition to the one adjusted misstatement, we have also identified several misstatements which management have decided not to adjust for on the basis that these errors are both individually and in aggregate not material. Unadjusted misstatements are set out in Appendix C. Our audit work also identified several presentation and disclosure misstatements. These are also detailed in Appendix C.

We have raised recommendations for management as a result of our audit work in Appendix A and our follow up of recommendations from the prior year's audits are detailed in Appendix B. It is worth highlighting that 4 out of 5 recommendations raised in the prior year have not been implemented.

1. Headlines - continued

Financial Statements

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

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

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

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

- final senior management and quality reviews;
- receipt of management representation letters; and
- receipt and review of the final sets of financial statements, Annual Governance Statement and Narrative Reports.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. Audit letters explaining the reasons for the delay are attached in the Appendix G and H to this report. We expect to issue our Auditor's Annual Report by 28 February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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

Statutory duties

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

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

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

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

Significant Matters

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

2. Financial Statements

Overview of the scope of our audit

This 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.

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) and the Code, which are directed towards forming and expressing an opinion on each set of 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 group, PFCC and Chief Constable's business and is risk based, and in particular included:

- an evaluation of the PFCC's 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.

Conclusion

We are nearing completion of our audits of your financial statements and, subject to outstanding matters on page 4 being resolved, anticipate issuing unqualified audit opinions on the financial statements of both the PFCC (and Group) and the Chief Constable. The proposed audit opinions are set out in Appendix E and F.

Acknowledgements

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

2. Financial Statements

Our approach to materiality

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

At the planning stage, we initially determined materiality based on the level of useable general fund reserves plus the operational resilience earmarked reserve. This is because this represents the level of resilience at the Authority to absorb budget deficits. This figure was £16.3m which we then evaluated based on a benchmark calculation based on gross revenue expenditure. Our gross revenue expenditure benchmark calculation produced a lower figure and therefore we used this as our materiality figure and communicated this in our Audit Plan.

As a result of the group exceeding the £500m threshold for 2021-22, in line with firm requirements, the materiality benchmark percentage is capped at 1.5% of gross operating revenue expenditure. This compares to 2% which was used in the prior year and at preliminary in our Audit Plan. We have therefore revised our materiality based on the new threshold, see the tables on this page and the next for details.

Preliminary materiality – as communicated in the Audit Plan

	Group (£)	PFCC (£)	CC (£)	Qualitative factors considered
Preliminary materiality for the financial statements	7,879,000 (2% of gross revenue expenditure)	7,749,000 (2% of gross revenue expenditure)	**6,500,000** **(2% of gross revenue expenditure)**	Business environment and external factors. Gross revenue expenditure is adjusted to remove the impact of actuarial McCloud and injury pensions on the basis that these do not reflect the underlying performance of the Authority.
Preliminary performance materiality	5,925,000 (75% of headline materiality)	5,812,000 (75% of headline materiality)	**4,875,000** **(75% of headline materiality)**	Control environment and quality / accuracy of accounts and working papers provided.
Preliminary Trivial matters	£395,000 (5% of headline materiality)	£387,000 (5% of headline materiality)	**325,000** **(5% of headline materiality)**	

Continued overleaf…

2. Financial Statements

Our approach to materiality - continued

Final accounts materiality

	Group (£)	PFCC (£)	CC (£)	Qualitative factors considered
Final materiality for the financial statements	8,224,000 (1.5% of gross revenue expenditure)	**6,155,000** **(1.5% of gross revenue expenditure)**	7,040,000 (1.5% of gross revenue expenditure)	Same as preliminary
Final performance materiality	6,167,000 (75% of headline materiality)	**4,616,000** **(75% of headline materiality)**	5,280,000 (75% of headline materiality)	Same as preliminary
Final trivial matters	£411,000 (5% of headline materiality)	**£307,000** **(5% of headline materiality)**	£352,000 (5% of headline materiality)	

We have determined financial statement materiality based on a proportion of the gross expenditure of the group, the PFCC and the Chief Constable for the financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materialities. The lowest materiality is that of the PFCC, which is £6,155,000 which equates to 1.5% of the PFCC's gross expenditure for the year adjusted for the impact of the McCloud

2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Joint Audit Plan.

Risks identified in our Joint Audit Plan	Relates to	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PFCC and Chief Constable face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group, PFCC and the Chief Constable	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Conclusion:** Our work has not identified any further material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Joint Audit Plan	Relates to	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Group, PFCC and the Chief Constable	Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the PFCC, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of public sector bodies, including the PFCC and Group, means that all forms of fraud are seen as unacceptable. For the Chief Constable, revenue is received solely from the PFCC and is recognised to fund costs and liabilities relating to resources consumed in the direction and control of day-to-day policing. This is shown in the Chief Constable's financial statements as a transfer of resources from the PFCC to the Chief Constable for the cost of policing services. Therefore we do not consider this to be a significant risk for the Chief Constable. Conclusion Our work has not identified any further material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Joint Audit Plan	Relates to	Commentary
Valuation of the pension fund net liability The Authority's pension fund net liability, in relation to both the Local Government Pension Scheme and the Police Pension Schemes, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£3,492 million), and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	Group, PFCC and the Chief Constable	We have: • updated our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation; • assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report; and **Findings:** As part of our work on the net pension liability, we obtain assurances via a letter from the auditor of the Essex County Council Pension Fund. In their letter to us they confirmed that there was a difference between the estimated fund balances sent to the actuary and the fund balances on the pension fund's net asset statement. To be clear, the Pension Fund is responsible for submitting estimated fund balances to the actuary. Essex Police has no part to play in this process. Total scheme assets in the submission to the actuary was £9,564,617k and the figure audited by the pension fund auditor was £81m higher at £9,645,581k. The difference is a result of timing. The submission to the actuary is done at an earlier time than the accounts are finalised by the Pension Fund. This means there is a greater level of estimation in the figures going to the actuary which results in a slight difference. To put into context, the £81m difference represents less than a 1% variance. This difference was not material to the pension fund and so the pension fund did not request the actuary to update their IAS 19 report. We performed work to assess whether this difference is material to the financial statements of Essex Police. Essex Police's share of total scheme assets is 5.4% and so the understatement in your financial statements has been calculated as £4,675k. As the misstatement is not material, management have decided not to request an updated actuarial report to adjust the accounts. As the amount is in excess of trivial, we are reporting this difference to you as an unadjusted misstatement. **See** Appendix C. **Conclusion** Our work has not identified any further material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Joint Audit Plan	Relates to	Commentary
Valuation of land and buildings The PFCC and group adopts a rolling programme for its revaluation of non-current assets, with each asset valued at least once every five years. In addition, the PFCC and group adopted a new measure with effect from 2019/20, to value all assets > £2m (net book value) on an annual basis, thus reducing the impact of the potential swing in values by adopting the rolling programme for higher-value assets. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£106.4m million as at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the PFCC and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.	Group & PFCC	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • tested revaluations made during the year to see if they had been input correctly into the PFCC (and group's) asset register. • engaged our own auditor's expert to provide assurance that assumptions pertaining valuations are reasonable; and • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these are not materially different to current value at year end. **Findings** **(1) Accounting for Assets Held for Sale** In relation to Assets Held for Sale (AHFS), we identified two issues. First, management have not consistently measured AHFS at the lower of its carrying value and fair value less costs to sell required by IFRS 5. Secondly, management has not consistently used the fair value (FV) valuation for AHFS required by the CIPFA Code of Practice. In some cases an EUV valuation has been used. The impact of this is that there is a non-material misstatement in the valuation of AHFS as at 31 March 2022 on the balance sheet. The net impact is £606k and this is reported to you as an unadjusted misstatement in Appendix C. **(2) Valuation of land at the Chelmsford HQ site** As part of our valuation work, we identified a £5.6m gain on a component of land at the HQ site in Chelmsford. The movement flagged as being outside of our expectations based on a forecast using indices provided by our auditor's expert. We therefore challenged management and your valuer to explain the reason for the significant movement. Management set out their judgement that this was a result of a change in the method of making the accounting estimate. Previously, your valuer estimated the value of land based on a 70/30 split of the value of the building. This year, management changed their approach to valuing land at the HQ site by carrying out a detailed measurement survey. In doing so, the value of the land increased by £5.6m. This represents a change in estimate and in accordance with IAS 8, it is appropriate to make the adjustment prospectively. We are satisfied that this does not represent a misstatement in the prior year audited accounts. *Continued overleaf…*

2. Financial Statements - Significant risks

Risks identified in our Joint Audit Plan	Relates to	Commentary
Valuation of land and buildings The PFCC and group adopts a rolling programme for its revaluation of non-current assets, with each asset valued at least once every five years. In addition, the PFCC and group adopted a new measure with effect from 2019/20, to value all assets > £2m (net book value) on an annual basis, thus reducing the impact of the potential swing in values by adopting the rolling programme for higher-value assets. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£106.4m million as at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the PFCC and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.	Group & PFCC	Whilst we are satisfied that the carrying value of land at the year end is reasonable, we have identified an issue in relation to the accounting of the movement through the revaluation reserve. Upon inspection of the revaluation and impairment listing held by management for each asset, we identified a £16m impairment reserve against a legacy component of land at HQ. This component dates back to 2008 and is therefore a legacy balance. We have challenged management to set out their judgement as to why subsequent increases in valuation of HQ land has not been charged against this impairment reserve as required by the reporting framework. We received a formal response from management setting out their judgement as to how they plan to account for this. This sets out an adjustment to the financial statements of £6.1 million. The adjustment reduces the revaluation reserve and credits the CIES. In performing the correction on the HQ Land, management have then decided to correct for all other assets which have a legacy impairment reserve as well as a revaluation reserve. The additional amount cleared out of the revaluation reserve is a further £893k. We have reviewed managements analysis and we are satisfied that the adjustment to the accounts is appropriate. Note that the gain in the CIES is removed through the MIRS into the Capital Adjustment Account and so this adjustment has no impact on the general fund. For more details – see Appendix C. (3) Chelmsford Police station – significant downward movement on revaluation During 2021-22, a major refurbishment of Chelmsford Police station was completed. The value of the refurbishment was £6.7 million. Despite this significant addition in year, your valuer valued Chelmsford Police station as £4.69 million. We therefore challenged your valuer to explain why the value of the asset at year end was below the cost of the refurbishment. The risk being that your valuer was either not aware of the refurbishment, or failed to adequately factor it into their valuation. We sent out a formal inquiry to your valuer and obtained a response. Your valuer explained that they were aware of the refurbishment and did consider it as part of their valuation. The Police station is valued on an Existing Use Value (EUV), and the method used by your valuer to estimate the value is to take into account comparable data i.e. similar office space in the area. Using this method, they arrived at a rental per square metre which calculated to the £4.69 million. To gain assurance that the assumptions and method used by your valuer is reasonable we requested a review from our auditor's expert. Their conclusion was that your valuer's method and assumptions were reasonable. Based on our work we are therefore satisfied that your accounts are not materially misstated. *Continued overleaf…*

2. Financial Statements - Significant risks

Risks identified in our Joint Audit Plan	Relates to	Commentary
Valuation of land and buildings The PFCC and group adopts a rolling programme for its revaluation of non-current assets, with each asset valued at least once every five years. In addition, the PFCC and group adopted a new measure with effect from 2019/20, to value all assets > £2m (net book value) on an annual basis, thus reducing the impact of the potential swing in values by adopting the rolling programme for higher-value assets. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£106.4m million as at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the PFCC and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.	Group & PFCC	**(4) Design of management's control over the valuation figures provided by your valuer** Management have designed and implemented a control to investigate all valuation movements in excess of 25% compared to the prior year. The control is designed to identify large or unusual movements on the draft valuation report that would require challenge and follow up. Whilst we agree with management that this is a key control that should be implemented, in our view however, the threshold of 25% is not sensitive enough as it would allow for material movements in the asset portfolio without it flagging for appropriate challenge or scrutiny. Furthermore, this assessment does not take account of any changes from the last valuation date such as additions and transfers from AUC which meant that a significant impairment at Chelmsford PS in 21/22 was not challenged by management. Whilst we have been able to obtain sufficient appropriate evidence over the valuation of PPE, there remains a weakness in the design of a key management control. We have raised a recommendation on this issue in Appendix A. **Conclusion** Our work has not identified any further material issues in relation to this risk.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £82.5m PFCC and Group	Other land and buildings comprises £82.5m 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 28 February on a five yearly cyclical basis. The valuation of land and properties valued by the valuer has resulted in a net increase of £7.8m. Management also engaged their valuer to provide a market review at year end to estimate the difference in valuation between the valuation date (28 February) and the balance sheet date (31 March). Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2017, 31 March 2018, 31 March 2019, 31 March 2020 and 31 March 2021 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, and reviewed by your finance team, calculated a non-material difference of £634k. 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.	We reviewed your assessment of the estimate considering: • Assessment of management's expert to be competent, capable and objective; • Completeness and accuracy of the underlying information used to determine the estimate; • The appropriateness of your alternative site assumptions which remain consistent with previous years; • Reasonableness of increase/decrease in estimates on individual assets; • Consistency of estimate against the Gerald Eve report on property market trends, and reasonableness of the increase in the estimate; and • Adequacy of disclosure of estimate in the financial statements **Findings:** As part of our work we reviewed the method and assumptions in your finance team's assessment as to the difference between assets not revalued as at the balance sheet date. We evaluated the reasonableness of this assessment by reperforming it based on indices provided by Gerald Eve in its annual report. This assessment came to £1,089k which corroborates management's assessment that the difference is not-material. All your land and buildings have been appropriately valued by the instructed valuer as at 31 March. Management has obtained sufficient evidence that the carrying value of all of your land and building as at 31 March 2022 is not materially different from the current value. **Conclusion:** Our work has not identified any material issues in relation to this risk.	Green – see key below

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability - Police Officer Pension Scheme: £3,328.9m **Group, PFCC and the Chief Constable**	The PFCC's and Chief Constable's total net pension liability as at 31 March 2022 is £3,491.4m (PY £3,569.2m). £3,297.8m (PY £3,328.9m) is in respect of Essex Police Officer Pension Scheme. The group/PFCC and Chief Constable use Barnet 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. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £143.1m net actuarial re-measurement gain during 2021-22, of which £143.1m has impacted the Comprehensive Income and Expenditure Statement.	In assessing the estimate, we have considered the following: • Assessment of management's expert • Assessment of actuary's approach i.e. Use of PwC as auditors expert to assess actuary and assumptions made by actuary – see results for key assumptions in the table below. • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Consistency of estimate against peers/PwC • Reasonableness of increase/decrease in estimate • Adequacy of the accounting treatment in the financial statements • Adequacy of disclosure of estimate in the financial statements	**Green – see key below**

PPS Assumptions	Actuary Value	PwC range	Assessment
Discount rate	2.6%	2.55-2.60%	● [Blue]
CPI inflation	3.2%	3.05-3.45%	● [Green]
Salary growth	4.2%	1.00% > CPI	● [Green]
Life expectancy – Males currently aged 60 Current Pensioners	21.1	20.5-21.1 years	● [Blue]
Life expectancy – Females currently aged 60 Current Pensioners	23.4	22.8-23.4 years	● [Blue]
Life expectancy – Males currently aged 60 Future Pensioners	22.4	21.8-22.4 years	● [Blue]
Life expectancy – Females currently aged 60 Future Pensioners	24.9	24.3-24.9 years	● [Blue]

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – LGPS: £193.6m Group, PFCC and the Chief Constable	The PFCC's and Chief Constable's total net pension liability as at 31 March 2022 is £3,491.4m (PY **£3,569.2m**). £193.6m (PY £240.3m) is in respect of Essex Local Government Pension Scheme. The group/PFCC and Chief Constable use Barnet 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. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £74.6m net actuarial gain during 2021-22, of which **£74.6m** has impacted the Comprehensive Income and Expenditure Statement.	In assessing the estimate, we have considered the following: • Assessment of management's expert • Assessment of actuary's approach i.e. Use of PwC as auditors expert to assess actuary and assumptions made by actuary – see results for key assumptions in the table below. • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Consistency of estimate against peers/PwC • Reasonableness of increase/decrease in estimate • Adequacy of the accounting treatment in the financial statements • Adequacy of disclosure of estimate in the financial statements Our work has not identified any material issues in relation to this risk.	Green – see key below

LGPS Assumptions	Actuary Value	PwC range	Assessment
Discount rate	2.6%	2.55-2.60%	● [Blue]
CPI inflation	3.2%	3.05-3.45%	● [Green]
Salary growth	4.2%	1.00% > CPI	● [Green]
Life expectancy – Males currently aged 65 Current Pensioners	21.6	20.5-23.1 years	● [Green]
Life expectancy – Females currently aged 65 Current Pensioners	23.7	23.4-25.0 years	● [Green]
Life expectancy – Males currently aged 65 Future Pensioners	23.0	21.9-24.4 years	● [Green]
Life expectancy – Females currently aged 65 Future Pensioners	25.1	24.9-26.4 years	● [Green]

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property, Plant and Equipment: depreciation including useful life of capital equipment. (PFCC and Group)	Buildings are depreciated in accordance with the valuers estimation of value/remaining life. Equipment including vehicles are depreciated based on standard lives and estimates from relevant managers and contract lengths where relevant. For existing assets the source data is the carrying value at the start of the year. For existing buildings this was provided by the valuer. For other existing assets it is the brought forward depreciated replacement cost. For new assets it is the purchase cost during the year. For buildings this is the revaluation performed at year end. The point estimate for depreciation is generated by the asset register based on the inputs of costs and expected lives for each asset.	We are satisfied that the estimate of your depreciation charge is not materially misstated.	Green – see key below
Annual Leave Provision (£4,618k) (CC, PFCC and Group)	An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that for taxation purposes holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.	During 2020/21 there was a significant increase in the annual leave provision from £2,915k at the start of the year to £6,197k. There were two key contributing factors to the increase: • The operational pressures of the Covid-19 pandemic meant staff and officers were less able to take all of their annual leave by the balance sheet date • Thresholds for holiday carry forward were increased as a policy decision For 2021/22, the annual leave provision decreased to £4,618k. Whilst this is higher that the figure in March 2020, it is significant decrease from the prior year. The reason for the fall is described in the financial statements as being a result of: • Change in the Authority's policy to reduce the number of days a person is able to carry forward into the following year	Green – see key below

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Insurance Provision (£2,724k) (PFCC and Group)	The PFCC makes a provision of £2.724m for the settlement of outstanding insurance claims that fail to be met under the 'excess' clauses of the PFCC's Insurance Policies. Estimates of outstanding claims payments depends on a number of factors and assumptions around future claims development. An actuarial review of the appropriateness of the provision is undertaken annually by insurance consultants.	As part of our review of management's process for estimating this provision we identified a key assumption which management was unable to support. This was an issue we identified in the prior year and raised a recommendation in our 2020-21 Audit Findings Report. This recommendation has however not been actioned as set out in Appendix B. **Management's estimate process:** In order to make this estimate, management employs an Insurance consultant expert. This expert provides management with an estimate of the value of outstanding claims. Management then reduce this estimate by 25% and it is this reduced figure which goes into the accounts. **Response from management:** We challenged management to justify this reduction. Management explained that the 25% element is a historic value applied to outstanding claims estimates from Legal, to represent a more accurate forecast of the outstanding liability for the force at both month and year-end. This is based on the view that the provision value was being overstated in respect of the forecasts applied, which were solely calculated based on professional opinion without any adjustment for margin of error. **Auditor consideration:** Although the 25% reduction has been applied to this estimate for several years, this is an assumption that management has not tested for reasonableness. It may be the case that the reduction should be larger but the point is that management has not carried out sufficient work to set an assumption. The 25% reduction has a circa £1m impact on the accounts and therefore we are satisfied that this assumption could not have a material impact on the accounts. A control recommendation was made to management in 2020-21 which has not been actioned. We therefore continue to raise this as a control finding as set out in Appendix B. **Control recommendation:** Management should carry out an assessment to claims paid compared to its original estimate in order to inform a more robust assumption for future years. **Conclusion:** With the exception of the above, we have no other concerns with respect to this estimate. Given the unsupported reduction assumption, we consider this estimate to be 'optimistic'.	Amber – see key below

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Minimum revenue provision (£4,318k)	When capital expenditure is financed by debt, the Authority must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by Council Tax payers. Until 2007/08, the basis of the calculation for the MRP was specified in legislation. However, from 2007/08 onwards the statutory requirement is simply for local authorities (including PCC's) to make a prudent level of provision, and the Government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The Authority's current method for setting the MRP charge is based on the asset life method for unfinanced capital expenditure after 2008 and a flat charge of £500k for unfinanced expenditure pre-2008	**Context** Before 2004, Whitehall issued UK Local Authorities with annual credit approvals, effectively setting a cap on each authority's borrowing. That system ended with the introduction of the prudential framework in 2004 which allowed Local Authorities to spend and borrow without approval. In recent months, the MHCLG published a policy paper which set out that they were "currently reviewing the statutory powers for capping borrowing and considering how and when we will apply these to protect local financial sustainability". It is clear then that the government is concerned about the financial sustainability of local authorities and so we have performed work around the minimum revenue provision (MRP) set by the authority to ensure not only that it complies why the agreed policy, but that the policy itself is reasonable to ensure the authority is able to repay borrowing in the long term. **Changes in MRP during 2021/22** In the prior year (2020-21), for the first time in several years, the Authority invested more into capital (£12.2m) than it internally financed (£8.6m). The difference (£3.6m) represented unfinanced capital expenditure and increased the underlying need to borrow. Though it is not a change in MRP policy, given that the Authority had always fully financed capital investment in the year it was invested, the Authority is now in a position where it must charge MRP on those assets not fully financed. MRP has therefore increased from the base of £500k (charged against pre-2008 unfinanced expenditure) to £588k. **Findings and conclusion:** As this is the first year that the Authority must charge MRP on unfinanced capital expenditure post 2008, we performed a review of the policy and the Authority's underlying records. We found that the policy was compliant with current regulations and had been applied appropriately. The underlying model is considered to be best practice and tracks each component of capital investment throughout its life. The model also forecasts MRP over the medium term and is updated based on the current capital programme. No issues or concerns were identified in relation to our review of MRP.	Green – see key below

Assessment

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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	Our work on related party transactions is complete - we are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	Letters of representation has been requested from both the PFCC and the Chief Constable
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the force's banker. This permission was granted, and the requests were sent. These requests were returned with positive confirmations.
Accounting practices	We have evaluated the appropriateness of the PFCC's and Chief Constable's accounting policies, accounting estimates and financial statement disclosures. We have nothing to report in respect of these matters.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. As set our in the Headlines section on page 3, we did encounter difficulties on the audit in terms of obtaining timely responses from management in relation to our queries.

2. Financial Statements - other communication requirements

Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with each set of audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Annual Governance Statement revision: As part of our review of the PFCC's and Chief Constable's Annual Governance Statement we identified that your assessment has been carried out against CIPFA's six principles set out in 'Good Governance Standard for Public Services'. This document is one published in 2005 and is outdated. In accordance with Code of Audit practice (3.7.4.1), A local authority shall undertake a review of its system of internal control in accordance with best practice. Delivering Good Governance in Local Government: Framework (2016), published by CIPFA and SOLACE, recommends that the review be reported in an Annual Governance Statement. Following our challenge, management have since revised their AGS such that it is an assessment against the principles set out in CIPFA's latest guidance 'Delivering Good Governance in Local Government (2016). Conclusion: No further issues identified as part of our work.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statements do not comply with disclosure requirements set out in CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits, • if we have applied any of our statutory powers or duties. We have nothing to report on these matters with the exception
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA audit instructions. Note that work is not yet completed as we are awaiting guidance from the NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audits of Essex PFCC and Chief Constable in the audit reports, due to VFM work being ongoing and WGA consolidation procedures as outlined above.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

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

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

Value for Money progress update

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix H to this report. We expect to issue our Auditor's Annual Report by the end of February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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

As set out in our Audit Plan, we have not identified any risks of significant weakness and this remains true at the date of issuing this Audit Findings Report.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

4. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Transparency

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

Audit and non-audit services

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

Appendices

A. Action plan – Audit of Financial Statements

We have identified three recommendations as a result of issues identified during the course of our audits. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2022-23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	Issue: Management have designed a control to investigate all valuation movements in excess of 25% compared to the prior year. Risk: In our view this threshold is not sensitive enough. It would allow for material movements in the asset portfolio without appropriate challenge or scrutiny. The assessment also does not take account of any changes from the last valuation date such as additions and transfers from AUC which meant that a significant impairment at Chelmsford PS in 21/22 was not challenged by management. We have assessed this as a high priority recommendation given it pertains to estimate with significant estimation uncertainty. Follow up audit work: Despite the weakness in the design of management's control, we have been able to obtain sufficient appropriate evidence over the reasonableness of the PPE valuation estimate. Our work included liaison with your valuation expert (Wilks Head and Eve) and our own valuation expert.	Recommendation: Management should consider lowering the threshold for investigation from 25% to a level that would identify material issues. Additionally, this assessment should use the GBV prior to revaluation which takes account of any movements since the last valuation date such as capital additions and transfers from the assets under construction register. **Management response** This recommendation is agreed. In order to give more time to the valuations exercise for the 22/23 Statement of Accounts, both in respect of the processing time and subsequent review process, a revised valuation date of the 31st January 2023 has been adopted, one month earlier than the equivalent date for the 21/22 accounts. In respect of the aforementioned review process, the gross valuation basis will be used to compare to new valuations, with all movements investigated where they equate to either the lower of 15% or £1m.

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Issue:** Per the draft financial statements there was £16m of fully depreciated assets as at 31 March 2022. Management's processes and controls to derecognise fully depreciated assets which are no longer in use are not effective. **Risk:** Without effective processes and controls to derecognise assets no longer in use, the accounts can contain a material misstatement in the disclosure of PPE. To be clear, this is a disclosure only risk because the write-out of fully depreciated assets has no net impact on either the Balance Sheet or the CIES. **Follow up audit work:** Given the size of fully depreciated assets at year end (£16m), we performed testing to ensure that the accounts did not contain a material disclosure misstatement. This work involved testing a sample of fully depreciated assets. This work identified several issues and so management was required to perform an assessment of the £16m balance. Through this work, management derecognised £7.3m of fully depreciated assets on the basis that they are no longer in use. We have performed work to assess whether this adjustment is reasonable and we are satisfied that it is. This is reported in Appendix C within the disclosure adjustments. Note – management had already derecognised £1.9m of assets in the draft financial statements.	**Recommendation:** Management should carry out an exercise at least annually to assess whether any fully depreciated asset is no longer in use. This process will involve representation and work from other parts of the business i.e. Estates and IT. **Management response** This recommendation is agreed. Whilst the work undertaken to derecognise £9.2m of these assets in the 21/22 accounts have significantly alleviated the issue, management agree that the remaining assets need to be thoroughly reviewed to check for any no longer in use or which need to have their useful economic lives reviewed. Management will undertake its standard asset existence process in advance of 22/23 year-end, and look to write out any erroneous balances at the earliest opportunity. This will not result in any bottom line impact to the PFCC. Furthermore, the relevant accounting policy has now been updated to reference that derecognition processes will be adopted as standard where an asset has exceeded a specific time period, and where management can no longer verify its existence and/or value.

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Issue:** From our testing of creditors, we identified several unreconciled creditor accounts. Because these creditor accounts were unreconciled, it meant it was challenging to obtain sufficient assurance that the balances represented genuine liabilities. In some instances we could see payments offsetting liabilities in the listing and in other examples it was not possible to ascertain whether management had appropriately recorded the liability / expense in their accounts. We have quantified such impacts and where they are non-trivial we have reported them to you as an unadjusted misstatement. Given the value and quantum of unreconciled payments and the age of these unreconciled accounts, some dating back more than 5 years, we deem that there is a reportable control deficiency. See Appendix C for the unadjusted misstatement. **Risk:** Over time, unreconciled creditor account codes could lead to a growing misstatement in your financial statements. It is important for this to be rectified as misstatements do flow straight into the general fund.	**Recommendation:** The first step is for management to clearly identify the different holding accounts on your creditor codes. For each, a control account reconciliation should be performed. We expect this account reconciliation to identify legacy balances that requires writing off. Having done this exercise, management should continue to monitor these holding accounts on a semi-regular basis. For next year's audit, instead of producing a full general ledger transaction history of these balances dating back to 2012 – management should provide the auditors with just the control account which shows only those open liabilities at year end of testing. The net figure however should reconcile to that on the general ledger. **Management response** This recommendation is agreed. For 2022/23 year-end the creditor balances will be cleansed and re-posted into a different accounting period which will enable management to provide a breakdown of creditors to the auditors which does not require the inclusion of legacy balances. It is expected that this will provide a solution to the system-related issues which have meant that historic years' balances have been included in transaction listings provided to the auditors. Whilst management acknowledge that there are some creditor balances which may need to be written off as part of this exercise it does not expect the impact to be material.

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audits of Essex PFCC and Chief Constable's 2020-21 financial statements, which resulted in recommendations being reported in our 2020-21 Audit Findings report. We have followed up on the implementation of our recommendations and note that four of the five recommendations have not been implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Control procedures performed over the net defined benefit obligation:** Detailed checks of the movements in the net defined benefit obligation were not performed ahead of the finalisation of the draft accounts. This meant management were unable to sufficiently review and assess the reasonableness of pension liability valuation before reporting those figures in the draft accounts. This is a key control that was not implemented. **Prior year recommendation:** We recommend management ensures the key control to review and assess the reasonableness of information provided by your expert is performed prior to finalisation of the draft financial statements. This key control should also be documented as having been performed and reviewed by two different, but appropriate, officers.	As part of our work this year we obtained evidence that this control has been designed and implemented effectively for the 2021-22 final accounts.
X	**Legal claims estimation process:** Management have historically applied a 25% reduction to the value of legal claims in estimating the provision on the balance sheet. Our work identified that management had not performed an assessment to support and justify this assumption. **Prior year recommendation:** We recommend that management carry out an assessment to determine what reduction (if any) ought to be applied to the value of claims provided by your Insurance expert and ensure this assumption is supported with appropriate evidence. This assessment should be carried out sufficiently regularly to ensure the assumption remains appropriate.	As part of our 2021-22 audit, we confirmed that management are still applying the 25% reduction to the value of the provision estimate. The recommendation to carry out an assessment as to whether the 25% assumption is appropriate has not been performed. We therefore continue to raise this as a control recommendation for 2021/22. This control recommendation was categorised as **Medium** in the prior year and we continue to assess it as a **Medium** i.e. a control weakness that is having a limited effect on the financial statements.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Contingent liability assurance:** Management made a decision to reverse a provision on the PFCC balance sheet despite not receiving sufficient supporting evidence to form a conclusion compliant with the relevant accounting standard (IAS 37) **Prior year recommendation:** Management should obtain sufficient evidence from its legal department to carry out a full assessment under IAS 37 to determine: a) Whether a provision exists under IAS 37 b) The best estimate as to the value of the provision under IAS 37 c) What disclosure, if any, is required in terms of contingent liabilities	This control has not been implemented. Evidence to support the contingent liability (Allard & Ors) was insufficient to determine what portion, if any, should be recognised on the balance sheet as a provision under IAS 37. This control recommendation was categorised as **Medium** in the prior year and we continue to assess it as a **Medium** i.e. a control weakness that is having a limited effect on the financial statements.
X	**Control procedures performed over the PPE valuation rolling programme:** The PFCC revalues its Land and Buildings on a five year rolling programme. As part of our work in 2020-21 we identified two assets which, whilst valued in 2020-21, had not been revalued in more than five years. The processes and controls management have put in place did not ensure compliance with the five year rolling programme in these instances. **Prior year recommendation:** Management should strengthen existing processes and controls to ensure compliance with the five year rolling programme. We would expect this to include a reconciliation of records in the fixed asset register to the estates system. Furthermore, the date of last valuation should be stored within the fixed asset register.	Management have not provided us with evidence of a reconciliation of records in the fixed asset register to the estates system. Nor has the date of last valuation been stored in the fixed asset register. Despite this, based on our work we are satisfied that all assets that should have been included in the valuation this year have been. Nonetheless, the control recommendation is yet to be implemented.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Third party monies - Issue raised first raised in 2019/20:** In accordance with the Proceeds of Crime Act (POCA) 2002, the PFCC holds monies on behalf of third parties arising from its operational responsibilities. Monies held under the POCA are correctly not accounted for on the balance sheet as the cash does not belong to the PFCC at this stage. As part of our audit we identified POCA third party cash is co-mingled in the PFCC operational bank accounts from which payments and investments are made. As at 31 March 2019, the POCA cash co-mingled in operational bank accounts was circa £2.1m. In co-mingling third party monies, the PFCC is benefiting from several cashflow benefits, namely: • higher interest rates on investments; and • reduced interest payments because the increased liquidity could result in the Authority not needing to borrow when it otherwise would Given that the third-party cash does not belong to the PFCC, we recommend that management set up a separate non-operational bank account for third party cash to be deposited and maintained. In doing so, the PFCC would no longer inappropriately benefit from cash which is not theirs. The other reason we are recommending the PFCC to stop co-mingling third party cash is that it reduces the risk of third-party cash being incorrectly recognised on the balance sheet. This is because the current process requires third party deposits to be manually identified and coded during the reconciliation process. Given the weaknesses identified in the controls around the reconciliation process as set out on the previous page, there is a risk that third party deposits are missed during the bank reconciliation and inappropriately recognised on the PFCC balance sheet. This risk is significantly reduced with a separate bank account for third party monies. We are satisfied based on our audit work that there is no material misstatement in the accounts because of third-party monies. Our recommendation is being made to reduce the risk of misstatement and strengthen the controls in place to ensure the propriety of third party assets held by the PFCC. **Prior year recommendation:** We recommended that management retain monies held on behalf of third parties in a separate bank account, such that these monies are not used for working capital or treasury management purposes.	Third party monies continue to be co-mingled in the PFCC's bank account. The total amount as at 31 March 2022 was £4,015,000. The Authority has considered our recommendation and taken the decision not to implement having considered the associated risks and benefits. Note – the control weakness around the bank reconciliation identified in 2019/20 was closed as part of our work in the 2020/21 audit. For transparency, we continue to recommend that the PFCC set up a separate bank account to hold third party monies for the reasons previously communicated.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments – adjusted misstatements

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

The table below provides details of adjustments identified during the 2021-22 audit which have been made within the final set of PFCC and Group financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Revaluation reserve misstatement: Under IAS 16, when an asset is revalued downward, that loss must be taken through the CIES where there is no previous revaluation reserve. The accumulated loss on each asset must also be recorded on a memorandum account within the asset register. This is sometimes referred to as an 'impairment reserve'. If an asset with a previous accumulated loss is then revalued upwards, the gain is taken through the CIES to the extent that previous losses were incurred. As part of our review of the fixed asset register, we identified assets with both an 'impairment reserve' and a revaluation reserve. One of these assets is the HQ site which had a significant upward movement on revaluation this year that was taken through the revaluation reserve. From our reconciliation of the impairment reserve memorandum to the impairment reserve balances used by management in their revaluation accounting calculations, we identified that the land component at the PFCC's HQ site had a brought forward impairment reserve of £16m despite its new componentisation. Our inquiries of management led us to uncover that the £16m accumulated impairment relates to a downward revaluation movement from 2008-09 at the HQ site when management switched valuation methods from DRC to EUV. The change in valuation method and subsequent componentisation change is believed to have resulted in this historic £16m impairment reserve not being allocated to the modern HQ land components. Management have proposed to apportion the historic impairment reserve proportionately to the latest valuation of the HQ land components as at the latest valuation date. We have reviewed their proposal and consider it reasonable. The net transaction to apportion the historic impairment reserve to the modern HQ land components and to reverse gains previously recognised prior to the apportionment of the impairment reserve is: Dr RR £893k Cr CIES £893k The net transaction to correct the accounting movements for HQ land components revalued in 21-22 is: Dr RR £6,114k Cr CIES £6,114k Whilst the adjustments above results in a net increase of £7,007k in the CIES, that gain does not impact the General Fund as it is removed through the MIRS into the Capital Adjustment Account.	Surplus/Deficit on the provision of services (7,007)	Revaluation reserve 7,007	(7,007)

C. Audit Adjustments – unadjusted misstatements

Impact of unadjusted misstatements

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

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Assets Held for Sale valuation misstatements: As part of our work we identified misstatements in management's accounting for Assets Held for Sale (AHFS). In accordance with IFRS 5, AFHS should be carried at the lower of fair value less cost to sell or carrying value. This requirement was not applied which resulted in the value on the balance sheet being misstated. This also impacted the gain or loss on disposal of an AHFS during the year that was valued incorrectly prior to the sale. The impact of this is that AHFS is <u>**understated**</u> in the financial statements. The adjustments required in the accounts to correct these issues are as follows: DR AHFS - £606k DR RR - £45k CR Gains on disposal - £64k CR Surplus/Deficit on the provision of services - £587k Management have decided not to process the adjustment because it is individually and in aggregate not material.	PFCC and Group	Gains on disposal (64) Surplus/Deficit on the provision of services (587)	Revaluation reserve 45 Assets Held for Sale 606	(651)	Not material

C. Audit Adjustments – unadjusted misstatements

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Additions extrapolation (1): As part of our sample testing of additions, we identified one sample item for £8,445 which management capitalised incorrectly. The transaction related to Hardware Maintenance support. Hardware maintenance is revenue expenditure and shouldn't have been capitalised under IAS 16. We have projected this error by extrapolating the error rate over the sampled population. The extrapolated misstatement is an overstatement of PPE by £652k and an understatement of expenditure by the same amount. As the extrapolation is above our triviality threshold we are required to report this to you. Management have decided not to amend the accounts because the misstatement is both not material and a projection.	PFCC and Group	**Expenditure** 652	**PPE** (652)	652	Not material and extrapolated error
Additions extrapolation (2): As part of our sample testing of additions, management were unable to provide sufficient appropriate evidence to support one sample item for £8,113. In the absence of sufficient appropriate evidence, we have assumed that the capitalisation of the £8,113 is a misstatement. We have evaluated the impact of this error by projecting the error rate over the sampled population. The extrapolated misstatement is an overstatement of PPE by £626k and an understatement of expenditure by the same amount. As the extrapolation is above our triviality threshold we are required to report this to you. Management have decided not to amend the accounts because the misstatement is both not material and a projection.	PFCC and Group	**Expenditure** 626	**PPE** (626)	626	Not material and extrapolated error

C. Audit Adjustments – unadjusted misstatements

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Operating expenditure extrapolation: As part of our sample testing of operating expenditure, management was unable to provide sufficient appropriate evidence to substantiate 5 of our sample items with an aggregate value of £810. In the absence of sufficient appropriate evidence, we have evaluated the impact by projecting the £810 as a misstatement over our sampled population. The extrapolated error was £520k. As this is significantly below materiality we are satisfied that overall, sufficient appropriate evidence has been obtained that the accounts are not materially misstated. However, as the extrapolation exceeds the triviality threshold, we are required to report this to you. Management have decided not to amend the accounts because the misstatement is both not material and a projection.	CC, PFCC and Group	Expenditure (520)	Creditors 520	(520)	Not material and extrapolated error
PPE revaluation misstatement (1): Land and Buildings are overstated in the FAR and accounts by £530k The misstatement has arisen because the valuation processed in the financial statements did not agree to the values provided by your expert. This occurred in three instances with the net impact being that PPE is overstated by £530k. The journal required to correct for this misstatement is: Dr Surplus/Deficit on the provision of services £530k Cr PPE £530k Management have decided not to adjust the accounts for these errors because they are individually and in aggregate not material.	PFCC and Group	Surplus and Deficit on provision of services 530	PPE (530)	530	Not material

C. Audit Adjustments – unadjusted misstatements

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Fees and charges – grossing up of income and expense From our testing of fees and charges we identified 2 samples relating to collaboration arrangements (Athena and 7 Forces). Upon challenging management, it became clear that the accounting for these collaboration activities were not being presented correctly in the financial statements. In these arrangements, Essex Police may incur costs in excess of the agreed allocation. In those circumstances, costs are recovered from other parties. The recovery of such costs do not represent true income as the revenue isn't being earned under IFRS 15. Rather, the credit should offset the expenditure in the accounts. The total overstatement of expenditure and revenue in the accounts is £1,915,939. This has no net impact on the final reported position of Essex Police but it does impact the presentation of the figures of income and expenditure on the face of the CIES. As the amount is not material, management are not adjusting the financial statements but have agreed to account for these collaboration activities correctly going forward.	CC, PFCC and Group	**Expenditure** (1,916) Revenue 1,916	0	0	Not material

C. Audit Adjustments – unadjusted misstatements

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
PPE revaluation misstatement (ERSOU) (2): In 2019-20, the PFCC agreed to contribute £998k for the purchase of an asset to be jointly used by seven forces. The total purchase price of the asset was £10.514m and this was purchased by the lead Authority (Bedfordshire PCC) in February 2020. Subsequent to purchase, Bedfordshire PCC obtained an Existing Use Valuation of the property as at 31 March 2020. The valuer estimated the value of the asset to be £7,320,00. This was £3,194,000 lower than the amount paid for the asset. Management chose not to update the accounts to recognise the change in current value because the impact was deemed to be immaterial. Essex PFCC only accounts for its share of the asset (9.49%) and so the difference between Essex PFCC's share of the purchase price and the current value of the asset as at 31 March 2020 is £303k. We reported this unadjusted misstatement to you in our 2019-20 Audit Findings Report. In 2020-21 we continued to report this as an unadjusted misstatement given that the asset was not revalued in 2020-21. In 2021-22 however the asset was revalued and the valuation information was shared with your finance team. Your finance team has however not processed the adjustment in the final accounts. The unadjusted misstatement in your accounts is that PPE is overstated by £326k. Despite the error not being material, as it exceeds our triviality threshold we are required to report it to you.	PFCC and Group	Downward revaluation 326	PPE (326)	 326	Not material

C. Audit Adjustments – unadjusted misstatements

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Creditors (1): From our work testing Creditors we have identified two transactions totalling £1,574k as debits to your creditor balances. These two debits pertaining to payments made to HMRC prior to year end. We asked for management to demonstrate to us what existing liabilities on the balance sheet this £1,574k transaction related to. Management provided some evidence of the £1,574k transactions netting of existing liabilities but the vast majority management could not provide us with the details. Given the lack of evidence provided with management, the £1,574k represents an uncertainty in your accounts, with creditors being overstated. Given it is unclear where the CR side of this transaction goes, we have applied it to the CIES to ensure in aggregate it could not contribute to a material misstatement in your accounts. **NB:** This issue pertains to the wider control issue about creditor control account reconciliations which we have raised in Appendix A	PFCC and Group	Surplus or Deficit 1,574	Creditors (1,574)	1,574	Not material
Creditors (2): As part of our testing of Creditors, we tested separately debit transactions in the listing. Typically, we expect to see only credit transactions in your creditor balances and so specific testing was performed on debits. For 4 of the samples, management were unable to provide sufficient appropriate evidence to substantiate the debit transactions. This is because the transactions were old and related to activity pre 2018. Our audit work was therefore unable to conclude that they were appropriate and on that basis we have extrapolated the potential impact of that uncertainty. The extrapolation of the uncertainty is £1,616k. The uncertainty is an understatement of creditors. We are not clear on what the DR side of the transaction is however, to ensure there isn't an aggregated misstatement in the CIES, we have assigned the uncertainty there.		Surplus or Deficit 1,616	Creditors (1,616)	1,616	Not material - extrapolated

C. Audit Adjustments – Unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Understatement of scheme assets on LGPS scheme: As part of our work on the net pension liability, we obtain assurances via a letter from the auditor of the Essex County Council Pension Fund. In their letter to us they confirmed that there was a difference between the estimated fund balances sent to the actuary and the fund balances on the pension fund's net asset statement. To be clear, the Pension Fund is responsible for submitting estimated fund balances to the actuary. Essex Police has no part to play in this process. Total scheme assets in the submission to the actuary was £9,564,617k and the figure audited by the pension fund auditor was £81m higher at £9,645,581k. The difference is a result of timing. The submission to the actuary is done at an earlier time than the accounts are finalised by the Pension Fund. This means there is a greater level of estimation in the figures going to the actuary which results in a slight difference. To put into context, the £81m difference represents less than a 1% variance. This difference was not material to the pension fund and so the pension fund did not request the actuary to update their IAS 19 report. We performed work to assess whether this difference is material to the financial statements of Essex Police. Essex Police's share of total scheme assets is 5.4% and so the understatement in your financial statements has been calculated as £4,675k. As the misstatement is not material, management have decided not to request an updated actuarial report to adjust the accounts. As the amount is in excess of trivial, we are reporting this difference to you as an unadjusted misstatement.	Other Comprehensive Income (4,675)	Net Pension Liability 4,675	(4,675)	Not material
Overall impact	(522)	522	(522)	Overall impact is less than materiality

C. Audit Adjustments – impact of prior year unadjusted misstatements

Detail	Relevant to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Allard vs Ors provision: **Prior year issue** At the start of the financial period (01 April 2020), the PFCC recognised a provision of £721k to account for costs the PFCC estimated it would need to pay out in respect of a legal claims linked to the Allard vs Ors case. This estimate was based on evidence provided by the force's in house legal team. During 2020/21, the PFCC made the decision to reverse the provision meaning that, as at 31 March 2021, the PFCC carried no liability on the balance sheet. As part of our audit, we challenged this judgement. Having reviewed subsequent information provided by the Force's legal team, it is our view that, under IAS 37, the criteria to recognise a provision has been met. Though not material, our assessment identifies a value of £378k which meets the IAS 37 provision recognition criteria. Management has not adjusted the accounts and so we are reporting this as an unadjusted misstatement. **2021-22 update:** There is currently an outstanding query with management to provide us with evidence to substantiate what portion (if any) of the contingent liability should be recognised as a provision on the balance sheet. In the absence of any updated information, it is prudent to continue to report the prior year unadjusted misstatement.	PFCC and Group	**Expenditure** 378	**Short term provisions** (378)	378	Not material
Overall impact of prior year unadjusted misstatements		378	(378)	378	Aggregate misstatement significantly below materiality.
Overall impact of prior year unadjusted misstatement plus unadjusted misstatements identified in the current year		(144)	144	(144)	Aggregate misstatement below materiality.

C. Audit Adjustments – misclassification and disclosure changes

Misclassification and disclosure changes

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

Disclosure misstatement, misclassification or omission	Relates to	Auditor recommendation	Adjustment agreed?
PPA of the MIRS (1): In the draft financial statements, management restated the prior year MIRS for the group and the PFCC. It was restated to correct for an error in the presentation of the 'Future capital reserve'. In the audited accounts for 2020-21, the 'Future capital reserve' was presented as a reserve outside of the general reserve within 'reserves for capital purposes'. This was incorrect because it is a useable revenue reserve which has been earmarked for a specific purpose. The balance of this reserve as at 01 April 2020 was £2m and the closing balance as at 31 March 2021 was £0.6m. Management restated the prior period MIRS statement to add these balances to the revenue earmarked reserves. Under IAS 8, only material prior period errors requirement restatement. Where the error is non-material, the error is processed as an in-year transaction. As management have corrected for a non-material error via a prior period restatement, this is contrary to the relevant accounting standard and so we are reporting it to you as a non-material presentation misstatement. **This disclosure misstatement has not been amended but as it is not material does not impact our audit opinion.**	Group and PFCC	To comply with IAS 8 and not process an immaterial prior period restatement	X
PPA of the MIRS (2): As set out above, it is our view that the MIRS PPA disclosed in the draft financial statements does not comply with IAS 8 on the basis of materiality. Putting this issue to one side, the PPA itself disclosed in the accounts does not meet all of the disclosure requirements of IAS 8. The issue was raised and discussed with management who agreed to include a disclosure under both of the statements to comply with IAS 8. We have reviewed these disclosures and we are satisfied that it meets the requirements of the accounting standard.	Group and PFCC	To add the additional narrative disclosure to explain the nature of the PPA in the financial statements	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure misstatement, misclassification or omission	Relates to	Auditor recommendation	Adjustment agreed?
Critical judgements - impairment: (PFCC and Group) In the draft accounts management included disclosure of a critical judgement in respect of impairment of fixed assets. Having reviewed the disclosure, there was no critical judgement in accordance with IAS 1. The disclosure therefore needed to be removed so as not to mislead the reader of the accounts.	Group and PFCC	To remove the disclosure	✓
Critical judgements - Joint Activities (CC only) The critical judgement in the CC's accounts in relation to Joint Activities is inappropriate on the basis it relates to jointly controlled assets which only impact the PFCC/Group accounts. We therefore recommend this disclosure is removed so as not to mislead the reader.	CC	To remove the disclosure	✓
Accounting Policies note 2.2 and 2.6 The accounting policy for revenue with contract customers required a change to ensure it was compliant with IFRS 15. The updated disclosure reads "Revenue from contracts with customers is recognised when goods and or services are transferred to the service recipient in accordance with the performance obligations in the contract". For the avoidance of doubt, we have no concerns that in incorrect accounting policy has been applied in the financial statements. The amendment is just to make clearer the accounting policy being applied.	Group and PFCC	To update the disclosure to comply with IFRS 15	✓
Disclosure of revenue from contracts with service recipients: In the Code, section 2.7.4.5 it requires the disclosure of the following: *revenue recognised from contracts with service recipients, which the authority shall disclose separately from its other sources of revenue.* There was no such disclosure of this in the draft financial statements. Management have agreed to update this disclosure for the final accounts.	Group and PFCC	To update the disclosure to comply with the LG Code	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure misstatement, misclassification or omission	Relates to	Auditor recommendation	Adjustment agreed?
Disclosure of assets from revenue contracts with service recipients: In 2.7.4.8 of the Code, it requires the disclosure of the following: *An authority shall disclose all of the following:* *a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with service recipients, if not otherwise separately presented or disclosed* *b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period, and* *c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).* This disclosure was not included in the draft financial statements. Management have updated the final accounts to now include this disclosure.	Group and PFCC	To update the disclosure to comply with the LG Code	✓
Accounting Policies - PFCC - Retirement Benefits – Police Staff For the Group accounts, the accounting policy in relation to Retirement Benefits for Police Staff is relevant. Whilst there is disclosure of this accounting policy in the CC's accounts, the Group accounts need to be stand alone and therefore the accounting policy on police staff must be included. Management have agreed to include this disclosure in the group financial statements.	Group and PFCC	To update the disclosure in the Group accounts	✓
EFA reconciliation for the PFCC single entity: We identified that the reconciliation at the bottom of the EFA was omitted for the PFCC single entity. Management have agreed to update for this in the final accounts.	PFCC only	To update the PFCC accounts accordingly	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure misstatement, misclassification or omission	Relates to	Auditor recommendation	Adjustment agreed?
Note 23 - Investments In the draft financial statements, the entire £9,999k of the investments balances was classified as being held with 'Central Government Bodies' but this classification is not supported by evidence we have received from the counterparties. Management have updated the note to accurately reflect to whom the investments are held with. To be clear, this is only a misstatement in the presentation of note 23 and has no net impact on the closing balance of investments held on the balance sheet.	Group and PFCC	To update the accounts	✓
Note 42 - Figure not updated from PY In this note there is narrative disclosure of the total pension liability. The figure in the draft accounts had not been updated from the prior year. The figure had been updated to correctly read £3,491,418k. This is purely a presentational issue and has no net impact on the reported position of any of the entities.	CC, PFCC and Group	To update the accounts	✓
Pension fund accounts The disclosure of the Police Officer Pension Fund Account did not fully meet the requirements of the CIPFA LG Code. In particular, there were no disclosure of: 1. Net Pension Fund Assets Statement 2. Notes to the Pension Fund Account 3. Accounting Policies These have now been updated in the final accounts of the CC and Group.	CC and Group	To update the accounts	✓
Transposition error in the EFA: There was a transposition error in the prior year EFA where the figures for the movement on accumulated absences for staff and officers was disclosed the wrong way around. This has been updated for in the final version of the accounts	CC, PFCC and Group	To update the accounts	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure misstatement, misclassification or omission	Relates to	Auditor recommendation	Adjustment agreed?
Estimation uncertainty - accounting estimates: The draft accounts included disclosure of estimation uncertainty related to accounting estimates. Though the narrative was factually accurate, it did not disclose a significant estimation uncertainty in line with IAS 1. On that basis, to avoid misleading the reader of the accounts, the disclosure has been removed.	Group and PFCC	To remove disclosure to comply with IAS 1	✓
Estimation uncertainty - Cashflow and Inflation The draft accounts included disclosure of estimation uncertainty related to Cashflow and Inflation. Though the narrative was factually accurate, it did not disclose a significant estimation uncertainty in line with IAS 1. On that basis, to avoid misleading the reader of the accounts, the disclosures has been removed.	Group and PFCC	To remove disclosure to comply with IAS 1	✓
Note 18 - PPE The draft accounts shows transfers and reclassifications in the PPE note in a single row (Transfers within PPE). However, Transfers within PPE should net nil. In the draft presentation the movements out of PPE are £2,054k. To avoid misleading the user, the disclosure should be updated to separately show assets reclassified within PPE and assets reclassified to AHFS. Management have revised the disclosure in the accounts to correctly present movements to the reader. The revised movements are shown below: Transfer from AuC to L&B: £4,916k Reclassification from L&B to AHFS: £2,862k (GBV) Reclassification from L&B to AHFS: £132k (Dep) Reclassification from L&B: £0k (Dep) Disposals / derecognition: £0k (Dep)	PFCC and Group	To update the accounts	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure misstatement, misclassification or omission	Relates to	Auditor recommendation	Adjustment agreed?
Note 25 - AHFS Based on our testing which involved reconciliations to the Fixed Asset Register as well as your valuers report, we identified that management have erroneously reported movements in the AHFS note. The opening and closing balances accurately reconcile to the FAR but the in year movements do not. The corrections management have proposed which we have audited and agreed are shown below: **Newly classified assets:** per the draft accounts it was £3,011k. This is now revised to £2,729k. **Movement through the revaluation reserve:** per the draft accounts it was £137k. This is now revised to £46k **Movement through the CIES:** per the draft accounts it was -£1,848k. This is now revised to -£232k **Assets sold**: per the draft accounts it was -£2,684k. This is now revised to -£3,926k.	Group and PFCC	To update the accounts	✓
Note 18 - PPE Based on our testing which involved reconciliations to the Fixed Asset Register as well as your valuers report, we identified that management have erroneously reported movements in the PPE note. The opening and closing balances accurately reconcile to the FAR but the in year movements do not. The corrections management have proposed which we have audited and agreed are shown below: **Depreciation written out to RR:** from £1034k to £1040K (L&B) **Depreciation written out to RR:** from £0k to £82k (Surplus) **Depreciation written out to Surplus/Deficit:** from £658k to £652k (L&B) **Depreciation written out to Surplus/Deficit:** from £98k to £16k (Surplus)	Group and PFCC	To update the accounts	✓
Revaluation profile disclosure There is a requirement under the CIPFA CoP to disclose the valuations of land and buildings at their last valuation date. This disclosure was missing in the draft accounts. It has now been updated for in your final version of the accounts	Group and PFCC	To update the accounts	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure misstatement, misclassification or omission	Relates to	Auditor recommendation	Adjustment agreed?
Annual Governance Statement: As part of our review of the PFCC's and Chief Constable's Annual Governance Statement we identified that your assessment has been carried out against CIPFA's six principles set out in 'Good Governance Standard for Public Services'. This document is one published in 2005 and is outdated. In accordance with Code of Audit practice (3.7.4.1), A local authority shall undertake a review of its system of internal control in accordance with best practice. Delivering Good Governance in Local Government: Framework (2016), published by CIPFA and SOLACE, recommends that the review be reported in an annual governance statement. Following our challenge, management have since revised their AGS such that it is an assessment against the principles set out in CIPFA's latest guidance 'Delivering Good Governance in Local Government (2016).	CC and PFCC	To update the accounts	✓
Officer Banding note PPA: In the draft 2021/22 financial statements, management have put through a PPA in both the CC and PFCC accounts. The PPA relates to the officer remuneration banding note. The error in the prior year was one of omission. In the prior year, due severance costs not being included, two officers that should have been included in the banding notes were not. For the 2021/22 draft accounts, management have restated the note to include these extra two officers. The two bands that were affected was the £50,000 - £54,999 and the £75,000 - £79,999. Under IAS 8, only material prior period errors requirement restatement. Where the error is non-material, the error is processed as an in-year transaction. As management have corrected for a non-material error via a prior period restatement, this is contrary to the relevant accounting standard and so we are reporting it to you as a non-material presentation misstatement. **This disclosure misstatement has not been amended but as it is not material does not impact our audit opinion.**	Group and CC	To comply with IAS 8 and not process an immaterial prior period restatement	X

C. Audit Adjustments – misclassification and disclosure changes

Disclosure misstatement, misclassification or omission	Relates to	Auditor recommendation	Adjustment agreed?
Fully depreciated assets (1): Given the GBV (£16m) of nil net book value (NBV) assets, we challenged management to reassess whether all the nil NBV assets held in the FAR were still in use. Management reviewed the listing of nil NBV assets and concluded that due to the age of some assets held in the FAR that they would not be able to provide the required assurance that all assets still exist. For IT equipment and other plant and equipment the UEL is approximately 7 years and the force would be expected to maintain complete records over that time. To respond to the risk of the GBV and accumulated depreciation being overstated and / or assets written out prematurely, management have proposed the following test where the following two factors must be met before derecognition - a) assets exceed seven years since their capitalisation date, and b) the relevant department cannot otherwise provide specific confirmation that the assets still exist and/or cannot retrieve documentation to support this assertion. We have deemed management's proposal appropriate and reasonable and have performed spot check on assets derecognised under their new policy for additional comfort. Apart from the issue set out below, we are satisfied from these checks that management's proposal is appropriate. The affected notes, line items and their values are illustrated below: PPE note: Derecognitions (Cost) £0k -> -£4,687k Derecognitions (Dep) £0k -> £4,687k Intangibles note: Disposals and deletions (Cost) £1,835k -> £4,482k Disposals and deletions (Amort) £1,835k -> £4,482k NB: Management have also updated their accounting policy note to make this change clear to the reader.	PFCC and group	To update the accounts	✓
Fully depreciated assets (2): From our additional work on fully depreciated assets, even after management's adjustment above, we identified a further £567k of fully depreciated assets that are no longer in use that required adjustment. Management have not adjusted for this portion. As the amount is not material we are reporting it to you as an unadjusted disclosure misstatement.	PFCC and group	To update the accounts	**No – Management have not updated the accounts for this misstatement**
Note 18 – Joint Assets: Management has agreed to update the disclosure to report the carrying value of assets rather than just the gross book value of assets.	PFCC and group	To update the accounts	✓

D. Fees

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

Audit fees	Proposed fee	Final fee
PFCC Audit	47,000	TBC
Chief Constable Audit	12,000	TBC
Total audit fees (excluding VAT)	**£59,000**	**TBC**

Once all work has been completed on the audit including the VFM work, we will assess the need for any changes to the proposed fees. This will be discussed with management.

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

E. Audit opinion - PFCC [provided separately]

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

F. Audit opinion – Chief Constable [provided separately]

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

G. Audit letter in respect of delayed VFM work (PFCC)

Roger Hirst

Police, Fire and Crime Commissioner for Essex

Kelvedon Park,

Rivenhall, Witham,

Essex, CM8 3HB

08 November 2022

Dear Roger

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

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

As a result, we have therefore not yet issued our Joint Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Paul Grady

Paul Grady
Key Audit Partner

H. Audit letter in respect of delayed VFM work (CC)

Ben-Julian Harrington

Chief Constable for Essex

Essex Police Headquarters,

Springfield, Chelmsford,

Essex, CM2 6DA

08 November 2022

Dear BJ

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

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

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Paul Grady

Paul Grady
Key Audit Partner

Grant Thornton

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