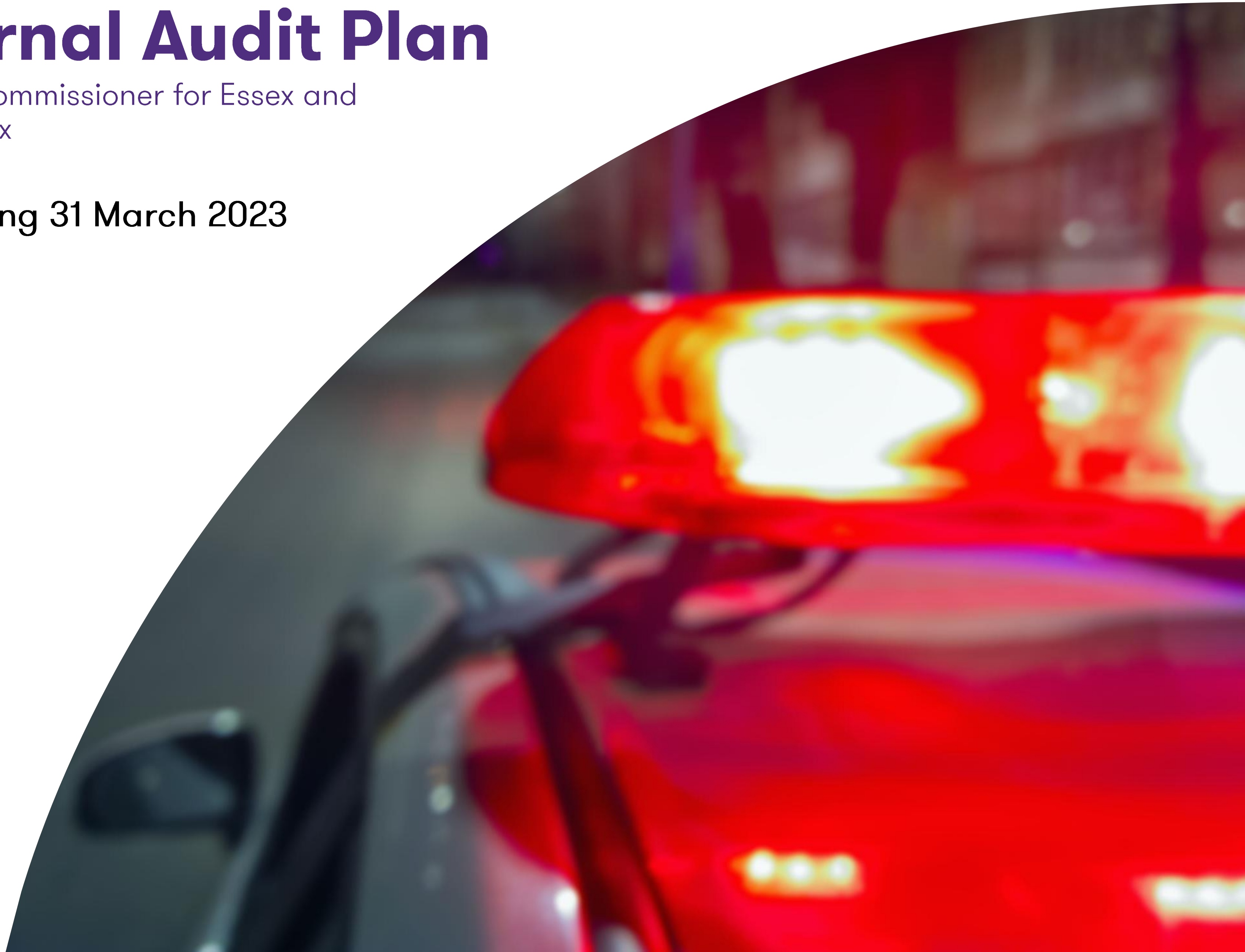
Grant Thornton

Joint External Audit Plan

Police, Fire and Crime Commissioner for Essex and Chief Constable for Essex

Financial year ending 31 March 2023

June 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 Police, Fire and Crime Commissioner 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.

Key matters

National context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets. We are also continuing to see workforce challenges for all police forces nationally.

The spiralling cost of living could make things even more challenging and jeopardising progress made in tackling violent crime. Funding continues to be stretched with increasing cost pressures due to the cost of living crisis, increasing pay demands, higher agency costs and increases in supplies and services.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time. In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Finances

As at month 11, the PFCC was forecasting an overspend of £0.8m which equates to circa 0.2% of the total expenditure budget. The forecast overspend includes all the costs in relation to operation Hazel (£5.6m) but only £4m of funding from the Home Office which has already been receipted. The PFCC is seeking full reimbursement but since that funding is not certain, it has not been included in the forecast position.

Your Medium-term Financial Plan (MTFP) has £24.9m of unidentified savings up to 2027/28. This cumulative gap assumes all identified savings of £21.1m are fully delivered. In addition to your unidentified savings, there are other risks to your financial sustainability such as non-pay inflation as well as higher than budgeted for pay increases. Action must be taken to address the medium-term financial gap as revenue reserves at £22m are insufficient to absorb the deficits.

Key matters

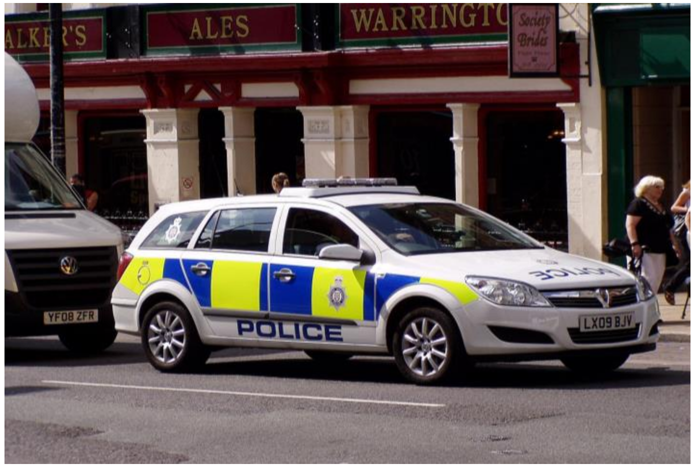
Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with Chief Finance Officer's of both the Police Fire and Crime Commissioner (PFCC) and the Chief Constable (CC).
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide those charged with governance (TCWG) with sector updates providing our insight on issues from a range of sources and other sector commentators via our TCWG updates.
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the Police, Fire and Crime Commissioner for Essex ('the PFCC') and the Chief Constable for Essex ('the Chief Constable') for those charged with governance. Those charged with governance are the PFCC and the Chief Constable.



Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter.

Scope of our audit

The scope of our audits is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- PFCC's, Chief Constable's and group's financial statements that have been prepared by management with the oversight of those charged with governance (the PFCC and the Chief Constable); and
- Value for Money arrangements in place at each body for securing economy, efficiency and effectiveness in their use of resources.

The audit of the financial statements does not relieve management, the PFCC, or the Chief Constable of their responsibilities. It is the responsibility of the bodies to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PFCC and the Chief Constable are fulfilling these responsibilities.

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

Introduction and headlines

Group Audit

The PFCC is required to prepare group financial statements that consolidate the financial information of the PFCC and the CC.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk that the valuation of land and buildings in the accounts is materially misstated. (PFCC and Group only)
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated. (Both)
- The risk of management override of controls. (Both)

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Audit Findings (ISA 260) Report.

Value for Money arrangements

Our draft 2021/22 Auditor's Annual Report is currently with management for consideration. Once this report has been finalised, we will undertake the planning for our 2022/23 value for money work. This will include consideration of management's responses to our improvement recommendations.

Introduction and headlines

Materiality

We have determined materiality individually for the Group, the PFCC and the CC. In determining materiality for the financial statements for the group, PFCC and the CC, we have selected the lowest level of materiality being the materiality level for the PFCC and applied that level of materiality for the group, the PFCC and the CC financial statements.

We have determined planning materiality to be £6m (PY £6.155m) for the group, the PFCC and the CC, which equates to 1.5% of the PFCC's prior year gross expenditure for the year adjusted for the effects of non-recurring items. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £300k (PY £307k).

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our interim visit took place in April 2023 and we are currently in discussions with management to agree the start date of our final accounts visit. Our key deliverables are this Joint Audit Plan, our Joint Audit Findings Report and Joint Auditor's Annual Report.

Our fee for the audit will be £73,474 (PY: TBC*) for the PFCC and £12,000 (PY: £12,000) for the CC, subject to the bodies delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

**The prior year audit fee for the PFCC is TBC as the fee variation is currently pending approval from management.*

Significant risks explained

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.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue risk (rebutted)	Chief Constable, PFCC and Group (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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the PFCC, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of police authorities, including the PFCC and the group, mean that all forms of fraud are seen as unacceptable. **Therefore we do not consider this to be a significant risk for the PFCC and the group.** For the CC, revenue 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 CC's financial statements as a transfer of resources from the PFCC to the CC for the cost of policing services. Income for the CC is received entirely from the PFCC. **Therefore we do not consider this to be a significant risk for the CC.**

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Chief Constable, PFCC and Group	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.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

<table>
<tr><th>Risk</th><th>Risk relates to</th><th>Reason for risk identification</th><th>Key aspects of our proposed response to the risk</th></tr>
<tr><td>Valuation of land and buildings</td><td>PFCC and Group</td><td>
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 revalue 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 (£82.5 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.
Pinpointing the risk:
We plan to pinpoint the significant risk around the following

assets which are material;
assets where the valuation movement differs significantly to what we would expect based on indices;
assets where we are aware of a significant change in any of the key assumptions from the prior period; and
any other factors which in our auditor judgement increases the risk of material misstatement in a particular asset

The pinpointing of the risk around specific items can only be performed at the final accounts stage once we have been able to perform the above risk assessment procedures.
</td><td>
We will:

evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
evaluate the competence, capabilities and objectivity of the valuation expert;
write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;
challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding;
test revaluations made during the year to see if they had been input correctly into the PFCC and Group asset register;
engage our own auditor’s expert to provide assurance that assumptions pertaining to rental income and yields are reasonable; and
evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

</td></tr>
</table>

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Chief Constable, PFCC and Group	The group's pension fund net liability, 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 (£3,491 million in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. **Triennial valuation of the LGPS** The CC and PFCC are scheduled bodies to Essex Local Government Pension Scheme. The latest triennial valuation for Essex Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Authorities' balance sheet, particularly in respect of membership data and demographic assumptions. Your actuary will therefore use this information as part its actuarial as at 31 March 2023. Additional audit work will therefore be required, particularly around membership data. We will also be requesting additional assurances from the auditor of the pension fund.	We will: • update 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation; • assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liability; • test 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; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Essex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Police, Fire and Crime Commissioner for Essex	Yes		• management override of internal controls • valuation of land and buildings • the completeness and accuracy of provisions and contingent liabilities	Full scope audit performed by Grant Thornton UK LLP
Chief Constable for Essex	Yes		• management override of internal controls • valuation of net pension fund liability	Full scope audit performed by Grant Thornton UK LLP

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the PFCC and Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement[s] are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the PCC or the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audits.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Group, PFCC and Chief Constable's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the prior year gross expenditure of the group, the PFCC and the CC adjusted for the effects of nonrecurring items. In the prior year we used the same benchmark. For our audit testing purposes we will apply the lowest of these materialities, which is £6m (PY £6.155m), which equates to 1.5% of the PFCC's prior year gross expenditure for the year adjusted for the effects of nonrecurring items.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. • We have not identified any item where a separate lower level of materiality will be applied

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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to those charged with governance** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PFCC and the Chief Constable any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to TCWG any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the group, the PFCC and the Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £300k (PY £307k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Joint Audit Committee to assist it in fulfilling its governance responsibilities.

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.

Prior year gross expenditure (adjusted for the actuarial loss on injury pensions costs)

2021/22: £537m Group

2021/22: £403m PFCC

2021/22: £465m CC

Materiality

£8m
Group financial statements materiality
(PY: £8.224m)

£6m
PFCC financial statements materiality
(PY: £6.155m)

£6.9m
CC financial statements materiality
(PY: £7.04m)

£300k
Misstatements reported to the PFCC and CC
(PY: £307k)

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IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 22.

The following IT system has been judged to be in scope for our audit and based on the planned financial statement audit approach, we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting	ITGC assessment to ensure the design and implementation of controls. This work is to be carried out by the Audit Engagement Team.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Value for Money arrangements

The 2021/22 VFM work is complete and we issued our draft Auditor's Annual Report to management in May 2023. Once we have received management's responses we will finalise the report.

In the draft 2021/22 Auditor's Annual Report no significant weaknesses in arrangements but we did identify several improvement recommendations. Once the 2021/22 AAR is finalised, we can complete our risk assessment work for 2022/23 including a review of management responses to our improvement recommendations.

At this stage we have not identified any risks of significant weaknesses in arrangements from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our 2022/23 auditor's annual report.

Audit logistics and team

Planning and risk assessment

Interim audit April 2023

Joint Audit Committee June 2023

Joint Audit Plan

Year end audit TBC

TBC

Audit opinion and Audit Findings Report

Joint Audit committee TBC

Auditor's Annual Report

Joanne Brown, Key Audit Partner

Jo will be the main point of contact for the PFCC, Chief Constable and Committee members. She will share her wealth of knowledge and experience across the sector providing challenge and sharing good practice. Jo will ensure our audit is tailored specifically to you, and she is responsible for the overall quality of our audit work. Jo will sign your audit opinions.

Parris Williams, Senior Manager

Parris will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Joint Audit Committee and liaison meetings with Paul, undertake reviews of the team's work, and ensure that our reports are clear, concise and understandable. Parris will be responsible for the delivery of our work on your arrangements in place to secure value for money.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement

ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you

ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing

ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit

respond promptly and adequately to audit queries.

Final accounts start date

We are currently in discussions with management to agree the start date of the final accounts visit.

Audit fees and updated Auditing Standards including ISA 315 Revised

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the PFCC and CC's IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the PFCC and CC's business model, which may result in us needing to perform additional inquiries to understand the end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an entity of your size, we estimate an initial increase of £6,680. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf. The fee for 2022/23 has been agreed with the Chief Finance Officer's of both the PFCC and the CC. The estimated fee for 2021/22 including fee variations is pending approval from management.

Audit fees

	2021/22 fee per Audit Plan	Final estimated fee for 2021/22*	Proposed fee 2022/23
PFCC Audit	£47,000	TBC	£73,474
Chief Constable Audit	£12,000	£12,000	£12,000
Total audit fees (excluding VAT)	**£59,000**	TBC	**£85,474**

Assumptions

In setting the above fees, we have assumed that the PFCC and Chief Constable will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

**The prior year audit fee for the PFCC is TBC because the fee variation is still pending approval by management.*

Audit fees – detailed analysis

	PFCC	CC	Joint	Rationale
Audit fee in the 2021/22 Audit Plan	£47,000	£12,000	**£59,000**	
Fee variation in respect of becoming a major local audit	£9,794		**£9,794**	This fee variation is in respect of the PFCC becoming a 'major local audit' in 2021-22 as a result of crossing the £500m total expenditure threshold. The additional work includes: • reduced materiality levels • audit subject to a technical review by our in-house quality team • mandated use of an auditor's expert as part of our PPE work • a series of other enhanced audit procedures for major local audits
Increased audit requirements of revised ISAs 315	£6,680		**£6,680**	
Experience of audit challenges	£10,000		**£10,000**	This is an increase to the base to reflect consistent challenges we face on the audit in terms of response times to queries and quality of working papers. By agreeing an increase in the base fee, it reduces the need for fee variations and means we can plan to provide additional resource to Essex Police from the start of the engagement.
Final proposed 21/22 fee	£73,474	£12,000	**£85,474**	

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PFCC and Chief Constable.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Communication of audit matters with those charged with governance

Our communication plan for those charged with governance i.e. the PFCC and the CC	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

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

Grant Thornton

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