The Audit Findings for Essex Police, Fire and Crime Commissioner Fire and Rescue Authority

Year ended 31 March 2021

September 2021

Contents

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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 audit of Essex Police, Fire and Crime Commissioner Fire and Rescue Authority's ("you" or 'the Authority') financial statements for the year ended 31 March 2021 for those charged with governance

Financial Statements

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

- give a true and fair view of the financial positions of the PCC 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.

The quality and accuracy of the Authority's financial statements and supporting working papers are very high. The Authority has made significant improvements during 2020/21 in relation to the processes and controls in place to prepare financial statements. The finance team and wider organisation were responsive to audit queries and we enjoyed constructive and effective partnership working arrangements and relationships throughout the audit. The improvements in both quality and accuracy of the accounts – and the ability of management to support them – are significant and commended. Our findings are summarised on pages 5 to 22.

We received your final signed unaudited accounts in early July and our audit work was carried out remotely during July to September. Prior to that that you had shared with us an early version of your draft accounts which enabled us to carry out some limited high level checks in June.

Management has made one presentation and disclosure change to the Authority's CIES to reclassify £5,811k of grants 'credited to services' to 'taxation and non-specific grant income'. For the avoidance of doubt, this has no net impact on the 'deficit on the provision of services'. For comparability, management has restated the prior year CIES because the misclassification of grants in 2019/20 was £1,518k which is £18k above the £1.5m materiality threshold. More details on this adjustment is set out in Appendix C.

We have 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.

We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audits are detailed in Appendix B.

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

- completion of our testing of membership data received from the Actuary in the week commencing 6 September (the date of writing)
- review of the narrative report and annual governance statement for consistency
- receipt and review of the Pension Fund Auditor Assurance Letter
- 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.

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

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 in our opinion, both entities have 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 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 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. An audit letter summarising the planned completion of our VFM work, addressed to the Police, Fire and Crime Commissioner (PFCC) for Essex, is included as an Appendix in this report. 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. As set out in our Audit Plan, no risks of significant weakness were identified but we identified five 'areas of focus' set out below:

- Your arrangements in response to the Covid-19 pandemic.
- Your arrangements for setting the Medium-Term Financial Plan and capital strategy and achieving financial sustainability.
- Your arrangements for service transformation and innovation.
- Your arrangements for working with your key partners to deliver services efficiently and improve the lives of local residents.
- Your arrangements to plan, monitor and deliver the Fire and Rescue Plan as well as areas of concern from HMICFRS

Our work on these areas of focus is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

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

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

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

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 Authority'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 Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of the PFCC 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 will 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 is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Authority. The audit of the financial statements does not relieve management or the PFCC of their responsibilities for the preparation of the financial statements.

Audit approach

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

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

We have not had to alter our audit plan, as communicated to the PFCC on the March 2021.

Conclusion

We nearing the completion of our audit of your financial statements and, subject to outstanding matters on page 3 being resolved, we anticipate issuing an unqualified audit opinion on the financial statements. The proposed audit opinion is set out in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

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.

We have not altered our materiality levels from those communicated in our Audit Plan in March 2021.

We detail in the table our determination of materiality.

	Final Audit	Qualitative factors considered
Materiality for the financial statements	£1,500,000 (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.
Performance materiality	£1,125,000 (75% of headline materiality)	Control environment and quality / accuracy of accounts and working papers provided.
Trivial matters	£75,000 (5% of headline materiality)	

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 Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls	In response to the risk highlighted in the Audit Plan, 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. **Findings** As in the prior year, our work on journals identified that two super users also had finance processing duties. We have performed additional work to ensure suppliers have not been inappropriately created by these super users on the AP system. We have also performed work to ensure no journals during 2020/21 have been approved through this super user access. **Conclusion** Subject to the completion of outstanding matters set out on page 3, our work has not identified any further material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, 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; and • the culture and ethical frameworks of local authorities, including Essex Police, Fire and Crime Commissioner and Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority. **Conclusion** There have been no changes to the assessment above as reported in our Audit Plan. Subject to the completion of outstanding matters set out on page 3, our work has not identified any material issues in relation to revenue recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	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 Firefighters Pension Scheme, 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 (£925 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.	Auditor commentary In response to the risk highlighted in the Audit Plan, 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; and • 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; As set out on page 3, we are still awaiting assurances from the auditor of Essex County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **Conclusion** To date, no material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 3. Should any residual issues arise that require reporting, we will report these to you before issuing our auditor's report.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings Each year, management revalue all of their of land and buildings to ensure the carrying value is not materially different from the current value (or fair value for Surplus assets) as at the balance sheet date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£125 million as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk of material misstatement.	Auditor commentary In response to the risk highlighted in the Audit Plan, 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; • written and 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 Authority's asset register. • 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. During our work on PPE valuations, management informed us that as part of their close down procedures to produce the financial statements, they identified that £210k of the brought forward revaluation reserve could not be supported. This was due to a small number of assets having both a revaluation reserve and an impairment reserve. As a result, management corrected for this in year by clearing the excess Impairment Reserve out to the CIES. We have reviewed this accounting treatment and management judgements involved and we are satisfied they are not unreasonable. For the avoidance of doubt, this adjustment was already included in the draft financial statements. **Conclusion** To date, no material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 3. Should any residual issues arise that require reporting, we will report these before issuing our auditor's report.

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 £125m	Essex, Police, Fire and Crime Commissioner Fire and Rescue Authority's freehold and leasehold properties were independently valued via a desktop valuation on 31 March 2021 by Lambert Smith Hampton. The valuations were in accordance with the requirements of the International Valuation Standards and the RICS Valuation Standards. Land and buildings comprises £116m of specialised assets such as fire stations and training facilities, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£10m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The valuation of land and buildings has resulted in a net increase of £3.4m. Of this increase, £0.4m has directly impacted on the Net Cost of Service within the Comprehensive Income and Expenditure Statement, with the remaining £3m representing an increase to the Authority's revaluation reserve.	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:** 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 2021 is not materially different from the current value. **Conclusion** To date, no further material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 3. Should any residual issues arise that require reporting, we will report these before issuing our auditor's report.	Light purple – see key below

Assessment

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

2. Financial Statements – key judgements and estimates

<table>
<tr><th></th><th>Summary of management's policy</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr><td>Net pension liability

LGPS: £38m

Firefighters' Officer Pension Scheme: £886m</td><td>The Authority's total net pension liability at 31 March 2021 is £950 million (PY £766 million) comprising the Essex Local Government Pension Scheme and the Firefighters Pension Scheme.

The Authority uses Barnet Waddingham to provide actuarial valuations of the Authority's assets and liabilities derived from these schemes.

In the draft financial statements, there has been a £56m net actuarial gain during 2019/20, of which a charge of £17m has impacted the Comprehensive Income and Expenditure Statement. The remaining £170m has decreased the Authority's unusable reserves.

For the LGPS scheme, a full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is issued in the intervening periods, 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.</td><td>Our assessment of the estimate has considered:

assessment of management's expert for competence, capability and objectivity
completeness and accuracy of the underlying information used to determine the estimate
reasonableness of increase/decrease in estimate
adequacy of disclosure of estimate in the financial statements
the use of PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below and overleaf for our comparison of actuarial assumptions
one of the assumptions in the LGPS fell outside of the range set by our auditor's expert. The difference is a result of local factors. We have estimated the potential impact on the liability for difference and confirmed that it is not material. Based on this, we are satisfied that the estimate is not reasonable.

<table>
<tr><th>Local Government Pension Scheme Assumptions</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Duration of Liabilities</td><td>22 years</td><td>15 – 22 years</td><td>● (Grey)</td></tr>
<tr><td>Discount rate</td><td>2%</td><td>1.95% - 2.05%</td><td>● (Light purple)</td></tr>
<tr><td>RPI inflation</td><td>3.2%</td><td>3.15%-3.35%</td><td>● (Light purple)</td></tr>
<tr><td>CPI inflation, pension increases and CARE revaluation</td><td>2.85%</td><td>2.8% - 2.85%</td><td>● (Grey)</td></tr>
<tr><td>Salary growth</td><td>3.85%</td><td>1.00% > CPI</td><td>● (Light purple)</td></tr>
<tr><td>Life expectancy – Males currently aged 65</td><td>21.6</td><td>20.5 - 23.1</td><td>● (Light purple)</td></tr>
<tr><td>Life expectancy – Males currently aged 45</td><td>22.9</td><td>21.9 - 24.4</td><td>● (Light purple)</td></tr>
<tr><td>Life expectancy – Females currently aged 65</td><td>23.4</td><td>23.3 – 25.0</td><td>● (Light purple)</td></tr>
<tr><td>Life expectancy – Females currently aged 45</td><td>24.7</td><td>24.8 - 26.4</td><td>● (Blue)</td></tr>
</table></td><td>Light purple – see key below</td></tr>
</table>

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] 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
Net pension liability LGPS: £38m Firefighters' Officer Pension Scheme: £886m	For the Firefighter's scheme, a full actuarial valuation is required every four years. The latest full actuarial valuation was completed in 2020. A roll forward approach is issued in the intervening periods, 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.	See table and conclusion below	Light purple – see key below

Firefighter's Pension Scheme Assumptions	Actuary Value	PwC range	Assessment
Duration of Liabilities	18 years	15 - 22 years	● [Light purple]
Discount rate	2%	1.95% - 2.05%	● [Light purple]
RPI inflation	3.25%	3.15%-3.35%	● [Light purple]
CPI inflation, pension increases and CARE revaluation	2.85%	2.8% - 2.85%	● [Grey]
Salary growth	3.85%	1% > CPI	● [Light purple]
Life expectancy – Males currently aged 65	20.5	20.5 - 21.1	● [Blue]
Life expectancy – Males currently aged 45	21.7	21.7 – 22.3	● [Blue]
Life expectancy – Females currently aged 65	22.7	22.7 - 23.3	● [Blue]
Life expectancy – Females currently aged 45	24.2	24.2 – 24.8	● [Blue]

Conclusion

To date, no further material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 3. Should any residual issues arise that require reporting, we will report these before issuing our auditor's report.

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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- [Light Purple] 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 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 depreciation method.	**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 2020/21** During the year, management reviewed their MRP policy and decided to extend the useful economic life of fire appliances from 12 years to 15 years. This decision has been taken through appropriate governance. In changing the useful economic life of fire appliances to 15 years for MRP purposes, this makes it consistent with the useful economic life applied to fire appliances in the depreciation calculation. The impact of this is to reduce the MRP charge by £484k prospectively from 2020/21. **Findings and conclusion:** The MRP charge is an amount set by the Authority to repay debt. As at 31 March 2021, the Authority's debt was £24,750,000, all of which was owed to the Public Work Loans Board (PWLB). The opening Capital Financing Requirement for the Authority was £34.5m which represents the Authority's underlying need to borrow. The MRP charge for 2020/21 was £4,381,000, which represents 18% of the outstanding liability with PWLB or 12.7% of the Authority's underlying need to borrow. The loans taken out with PWLB are long term and need to be repaid between 20-30 years from when they were taken out. Typical capital investment each year is circa £3m and therefore, with the charge at over £4m, the Authority is incrementally reducing the Authority's underlying need to borrow by circa £1m a year. The Authority also has £9.6m of capital receipts available to finance capital investment in the future. These factors, alongside the Authority's reserves/capital strategy, inform our conclusion that the MRP charge set by the Authority is reasonable. For the avoidance of doubt, we are not recommending a change to the MRP approach, nor do we consider it inappropriate.	Light Purple – see key below

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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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.	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. There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year.	As part of our work on depreciation two issues were identified, both of which relate to the fact your depreciation charge is incorrectly calculated: (1) There is an error in the way your assets register is calculating depreciation for Buildings. Instead of using the Useful Economic Life (UEL) to calculate depreciation, the asset register is using the Useful Remaining Life (URL). As the URL is lower than the UEL, this has resulted in the depreciation charged to the accounts being too high (overstated). We have undertaken a high level general assessment and are satisfied the misstatement is not likely to be material. Our high level assessment of the error indicates your depreciation could be £742k too high. However, this is not a precise recalculation. Management will need to amend their depreciation calculation to calculate the precise error. This estimated error is communicated to you as an 'unadjusted misstatement' see Appendix C. (2) The second issue also concerns the depreciation charge for Buildings. We have found that the UELs in your asset register do not agree to the UELs set by your valuer. Management has not updated the asset register with the latest UELs provided by the valuer in line with your accounting policy. Generally, the UELs provided by your valuer are lower than what is in your asset register. We have undertaken a high level assessment and are satisfied the misstatement is not likely to be material. Using a generalised weighted average, which is less precise than the calculations management will need to undertake, it appears that the impact on your accounts may be that depreciation is understated by circa £275k. Management will need to amend their depreciation calculation to calculate the precise error. This estimated error is communicated to you as an 'unadjusted misstatement' see Appendix C. The overall impact of these two issues is that it is likely that your depreciation is overstated. Our general, weighted average assessment indicates this could be a net overstatement of depreciation of £467k. However, this is not a precise recalculation, and management will need to correct the depreciation calculation to arrive at the correct figure. We are satisfied, however, from our high level assessment that the misstatement in your accounts is not likely to be material. As a result of these issues identified, we have also raised a control recommendation to management – see Appendix A.	Grey – see key below

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple 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
Annual Leave Provision (£828k)	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.	From our review of the holiday pay accrual we identified that the daily rate assumption of 365 is not reasonable as it includes non-working days and therefore understates the liability. We have calculated the impact of this assumption by using 253 days, which is the number of working days in 20/21. The impact on the estimate is an understatement of £375k. We have reported this misstatement to you as an 'unadjusted misstatement' see appendix C. We have also raised a recommendation to management to review this calculation for future years – see appendix A. We are satisfied our finding does not constitute a cumulative material misstatement of the financial statements. As a result, we consider the estimate to be 'optimistic' but is unlikely to be materially misstated. Note – this is not a change of methodology in year and has been the method applied by the Authority for several years. In previous years the understatement it produced was below our trivial reporting threshold.	Blue – see key below

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
Immediate Detriment	**Background** On 16 July 2020 HM Treasury published their Public service pension schemes consultation which contained the proposed remedy regarding the McCloud/Sargeant remedy. Included in this proposal are details of which members are eligible for remedy. In particular, those who were members of a public sector pension scheme on or before 31 March 2012 and on or after 1 April 2015 will be in scope to choose between their 2015 Scheme or legacy scheme benefits for the period April 2015 to April 2022. Based on the consultation, the LGA published information in October 2020 which related to Authorities making payments to prospective pensioners on Immediate Detriment. In other words, allowing employees to retire on old terms rather than the new ones on the basis the new scheme has been found to be unlawful. The issue is that as it stands, the remedy has yet be legislated. Whilst the new scheme has been deemed to be unlawful, there isn't a new scheme yet to replace it. **The decision made by the Authority:** Based on the LGA paper and further guidance from the Home Office, management began the process to consider the implications of the Authority making payments on Immediate Detriment. In January 2021, management engaged legal counsel to advise them on the potential legal ramifications of making payments on Immediate Detriment. Based on this legal advice management recommended to the PFCC not to make the payments. The recommendation was accompanied by a comprehensive decision sheet setting out the rationale for the recommendation The PFCC considered this advice and decided not to follow the advice of his officers. The PFCC's reasoning was that it was unlikely that a rapid resolution would arise to resolve the issues outstanding at the time, which would prevent employees from retiring for a couple of years. The PFCC held the view that this was an unreasonable position in which to place employees nearing retirement. In making his decision, the PFCC chose to rely on Section 61 of the Equality Act 2010, as ruled on by the EAT, and on the priorities within the Essex Fire and Rescue Plan 2019 – 2024 to make this decision in the interests of long-serving members of the Fire & Rescue Service. The PFCC was also clear that he believed this was the ethically correct decision to make in the interests of serving firefighters, and to ensure fairness of treatment for them. In essence, the PFCC prioritised the interests of firefighters over the' personally safer' decision not to apply Immediate Detriment, as he believed this was the ethically and morally correct decision to make for Authority employees. **Management's judgement:** Management engaged us early in the process which enabled us to consider the issue well ahead of the year end. Management and the PFCC were open, transparent and very helpful in discussing and sharing the issue with us. Management's view is that this issue has no impact on the 20/21 accounts, partly because payments would not commence until 21/22 but also because the decision to make the payments are not, in their view, ultra vires.

continued…..

2. Significant findings – matters discussed with management

Significant matter	Commentary
Immediate Detriment *(….continued)*	**Auditor's assessment:** We have considered management's judgement. There is no clear legal view from the Authority's lawyers that concludes making payments under Immediate Detriment is *ultra vires*, although they also do not conclude that it is not open to subsequent legal or other challenge. Management undertook appropriate steps to clarify their position, including seeking legal advice and reviewing the available guidance, and we are satisfied the decision has been reached following an appropriate and considered process. We are satisfied the judgements both management and the PFCC have reached are not unreasonable (notwithstanding the PFCC's decision does not follow management's advice) based on the advice received and the guidance available from the Home Office. From review of management's calculations, we are further satisfied payments made under immediate detriment are unlikely to have a material impact on the financial statements in future years. The legal advice provided to the Authority highlighted various risks the Authority may be exposed to in the absence of definitive guidance from government. While the legal advisors suggested waiting for further clarification from government, they also concluded that the payments would not be unequivocally unlawful based on the current legal position. No such payments have not been made during the financial period of 2020/21 and therefore there is no impact on the current financial statements. Since our work, further guidance was issued by the Home Office on 10 June 2021 which reinforces the Authority's judgement to proceed with Immediate detriment payments and provides practical guidance to Authorities on how to transact this. It is not unreasonable for the Authority to assume from this guidance from the Home Office that Immediate Detriment payments are not prohibited, nor are they in conflict with Home Office indicative views on legality. **Conclusion:** We are satisfied that the decision made by the Authority has no material impact on the 31 March 2021 financial statements. We are satisfied the Authority followed an appropriate and considered process and the decisions reached are not unreasonable. There is no clear evidence any such decisions are ultra vires and the Home Office guidance indicates they do not consider such payments to be ultra vires. As such, at this stage we do not see a need to challenge the decision further or take any other action, based on the information which has been presented to us and our review and consideration thereof. **Risks to the entity:** Notwithstanding the above, it is appropriate to highlight potential risks and complexities with the decision to proceed with Immediate Detriment. For the avoidance of doubt, the Authority and the PFCC were aware of these risks when making their decision: - the whole premise of the proposed restitution is that of choice and the Government consultation is clear this should be member choice. The consultation states at 2.10 that it is not "practicable or appropriate for scheme managers to decide on behalf of individual members" - the choice of membership of the legacy or reformed scheme is not necessarily straightforward and the choice is intended to be irrevocable. Members would need to make informed choices and there may be unintended consequence of "early restitution". Making a fully informed choice prior to legislative and scheme changes could be difficult. There are potential implications for contributions payable, with balancing payments either way likely. There are also potential implications for dependants and survivors, potential tax implications, and there could be overpaid pension for the Authority to recover depending on the choice made. There remains a risk that payments made under Immediate Detriment could result in a loss to the public purse. - further to the administrative complexity, and uncertainty absent legislation and revised scheme regulations, there is a question of how the fire pension grant would accommodate early restitution payments made in advance of legislation.

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	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 the PFCC
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Authority'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 Authority's accounting policies, accounting estimates and financial statement disclosures. Our review identified the following: • note 7 'assumptions made about the future and other major sources of estimation uncertainty' has been enhanced by including additional disclosure of the roll forward method used by your actuary and the impact this has the net pension fund liability estimate. This note has also been improved by removing sources of estimation uncertainty which are not material to comply with IAS 1. • the presentation of the collection fund deficit was not consistent with the prior year. Management have revised the disclosure of this on the CIES and related notes. • management has improved the clarity of the notes pertaining to grants; making clear those grants with a specific purpose and therefore reported within the provision for fire services and non-ring fenced grants which are reported in the overall deficit/surplus on provision of services.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

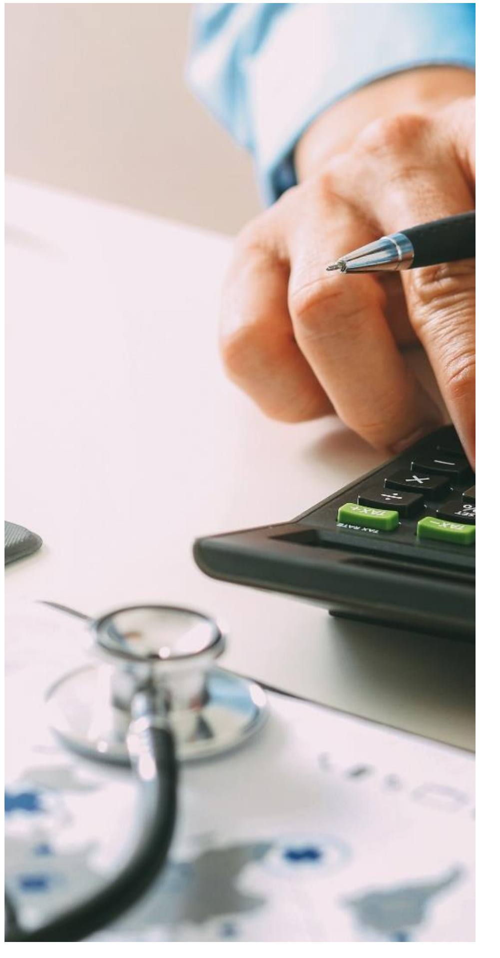
Our responsibility

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 Authority'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 Authority 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 Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority'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 • management's use of the going concern basis of accounting in the preparation of the 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 the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work to date has not identified any inconsistencies. Subject to the completion of all outstanding work we plan to issue an unmodified opinion in this respect.
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.
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. This work cannot commence until guidance has been received from the NAO, which is still awaited at the time of writing.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit, as detailed in our audit report, until we have been able to complete our work on the WGA (pending the release of NAO guidance) and we have completed our work in respect of the arrangements to support value for money.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Authority's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require 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.

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

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 Authority. 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 2021-22 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
Medium	Depreciation of Buildings – Fixed Asset Register calculation As part of our assessment of management's depreciation estimate, we identified that the fixed asset register has been calculating depreciation on buildings incorrectly. Instead of using the Useful Economic Life (UEL) in the calculation, it has been using the Useful Remaining Life (URL). In doing so, the depreciation being charged to the accounts is higher than it should be. Management has not calculated the revised depreciation charge using accurate UELs. We have performed a high level assessment to identify the indicative misstatement. The misstatement has been reported to you as an 'unadjusted misstatement' see appendix C.	Management should update the fixed asset register system to ensure it calculates depreciation correctly in line with the accounting policy and IAS 16.
Medium	Depreciation of Buildings – UEL assumption As part of our assessment of management's depreciation estimate, we identified that the UELs for Buildings per the fixed asset register did not agree to the UELs provided by your Valuer. In most cases the UELs per your fixed asset register were higher (longer) than the UELs provided to your valuer. This meant that the depreciation being charged to the accounts is understated. Management has not calculated the revised depreciation charge using accurate UELs. We have performed a high level assessment to identify the indicative misstatement. This has been reported to you as an 'unadjusted misstatement' see appendix C.	Management should ensure the fixed asset register is updated to reflect the most up to date UELs, as set out in the valuer's report, on receipt of each valuation report. Depreciation should be calculated on the basis of this most up to date information.

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	Annual leave – working days assumption From our review of the holiday pay accrual we identified that the daily rate assumption of 365 is not reasonable as it includes non-working days. We have calculated the impact of this assumption by using 253 days, which is the number of working days in 20/21. The impact on the estimate is an understatement of £375k. We have reported this misstatement to you as an 'unadjusted misstatement' see appendix C. Note – this is not a change of methodology in year and has been the method applied by the Authority for several years.	Management should review and update the working day assumption in their holiday pay assumption to arrive at a more accurate estimation of the liability.

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 audit of Authority's 2019-20 financial statements, which resulted in recommendations being reported in our 2019-20 Audit Findings report. We have followed up on the implementation of our recommendations and note that one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Prior year issue:** As part of our work on the journal I.T. control environment we identified people who had both super user access and financial processing duties. These two roles are incompatible and flag as a segregation of duties issue. We have performed additional work to assurance ourselves that this incompatibility has not resulted in a material issue in your statement of accounts. **Prior year recommendation:** Review systems access to your financial systems and ensure super user access is restricted to appropriate persons.	The segregation of duties issue continues to persist. As in the prior year, we carried out additional work to assure ourselves that the risk has not resulted in instances of inappropriate authorisation of transactions. No issues identified from this work. Note, the Authority has reduced the number of super users with processing duties from 3 in the prior year to 2 currently.
✓	**Prior year issue:** 12 assets totalling £3.1m were identified by your valuer as surplus and valued at Fair Value. These assets are were however classified within operational land and building in your 2019-20 statement of accounts. Management provided us with a judgement setting out their rationale as to why these assets were operational land and building and not surplus. We reviewed this judgement and we were happy it is reasonable. Nevertheless, these assets were incorrectly valued at Fair Value, instead of Existing Use Value as required by the Code. The different valuation methodologies could result in different values. Whilst we are satisfied that this difference is unlikely to be material, it continues to indicate a weakness in processes and controls in relation to the valuation process. **Prior year recommendation:** In line with last years recommendation, management should ensure the valuer is instructed to value assets on the correct basis. In order to do so, management will need to have a formal process to make judgments, in accordance with the accounting framework, as to the correct classification of each of the assets as at 31.3.20.	Management has undertaken work to ensure the classification of the assets between operational, surplus and held for sale is appropriate. Management has also ensured that their valuer has valued their assets on this basis. In doing so, management has actioned the recommendation we raised in the prior year.

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
✓	**Prior year issue:** The Authority amended the general and earmarked reserves in October 2020, seven months after the year end, 3 months after the accounts had been recommended for approval by the Audit Committee and 2 months after the close of the statutory public inspection period. The amendment was made in respect of undocumented earmarking policy decisions **Prior year recommendation:** Decisions regarding earmarked reserves should be documented in writing, with an official record kept of such decisions All earmarking decisions should be reflected in the accounts presented for audit, recommended for approval by the audit committee and published on the website in compliance with the Authority's legal requirements under the Local Audit and Accountability Act 2014.	We are satisfied that management has actioned the recommendations raised in the prior year. No issues of this nature identified in 2020/21.

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

We do not have any adjusted misstatements to report.

C. Audit Adjustments – Unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020-21 audit which have not been made within the final set of financial statements. The PFCC is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Depreciation – Fixed Asset Register incorrect calculations: There is an error in the way your assets register is calculating depreciation for Buildings. Instead of using the Useful Economic Life (UEL) to calculate depreciation, the asset register is using the Useful Remaining Life (URL). As the URL is lower than the UEL, this has resulted in the depreciation charged to the accounts being too high (overstated). We have undertaken a high level general assessment and are satisfied the misstatement is not likely to be material. Our high level assessment of the error indicates your depreciation could be £742k too high. However, this is not a precise recalculation. Management will need to amend their depreciation calculation to calculate the precise error. Note, even if management were to adjust the accounts for this error, it would have no net impact on the general fund. This is because depreciation is removed from the general fund via the MIRS. Moreover, if management were to adjust the accounts for this error, it would have no net impact on the net book value of PPE as at 31 March 2021. This is because the revaluation exercise would have reversed all accumulated depreciation and reset the value of assets.	Depreciation charge (742)	Property, Plant and Equipment 742	(742)	Estimation of error is not material. Management has not re-calculated the precise error.

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
Depreciation – Fixed Asset Register incorrect UELs The second issue also concerns the depreciation charge for Buildings. We have found that the UEL's in your asset register do not agree to the UEL's set by your valuer. Management have not updated the asset register with the latest UEL's provided by the valuer in line with your accounting policy. Generally, the UEL's provided by your valuer are lower than what is in your asset register. We have undertaken a high level assessment and are satisfied the misstatement is not likely to be material. Using a generalised weighted average, which is less precise than the calculations management will need to undertake, it appears that the impact on your accounts may be that depreciation is understated by circa £275k. Management will need to amend their depreciation calculation to calculate the precise error. Note, even if management were to adjust the accounts for this error, it would have no net impact on the general fund. This is because depreciation is removed from the general fund via the MIRS. Moreover, if management were to adjust the accounts for this error, it would have no net impact on the net book value of PPE as at 31 March 2021. This is because the revaluation exercise would have reversed all accumulated depreciation and reset the value of assets.	Depreciation charge 275	Property, Plant and Equipment (275)	275	Estimation of error is not material. Management has not re-calculated the precise error.

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
Annual leave calculation From our review of the holiday pay accrual we identified that the daily rate assumption of 365 is not reasonable as it includes non-working days. We have calculated the impact of this assumption by using 253 days, which is the number of working days in 20/21. The impact on the estimate is an understatement of £375k. Note, the reduction in the annual leave accrual would have no net impact on the general fund as it would be reversed out in the MIRS to an unusable reserve.	Employment costs 375	Creditors (375)	375	Not material
Debtors testing – extrapolation: As part of our debtors sample testing, we identified one transaction for £43,630 which was accounted for twice incorrectly as a duplicate. We extrapolated the impact of this error across the population tested which resulted in an extrapolated overstatement of £509k.	Revenue 509	Debtors (509)	509	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
Operating expenditure sample testing As part of our sample testing of non-pay operating expenditure, we identified one transaction for which related 2019/20 which was incorrectly accounted for in 2020/21. We extrapolated the impact of this error across the population tested, which resulted in an extrapolated overstatement of £85k.	Expenditure 20/21 (85)	Opening General Fund 85	(85)	Not material - extrapolated
Overall impact	332	(332)	332	Not material and includes extrapolations and estimations of depreciation error in the absence of management recalculations

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 changes or issue	Detail	Auditor recommendations	Adjustment agreed?
£838k collection fund creditor	In the 2020/21 draft financial statements, debtors of £6,364k included a £838k credit from the deficit on the collection fund. As a credit, this means that the Authority has a liability and therefore should be classified within creditors. Management have made this adjustment to the final accounts. This has no net impact on the reported deficit.	Adjust the balance sheet and the accompanying notes to present the £838k as a true liability rather than netting down debtors.	✓
£130k creditor within debtors	As part of our review and testing of debtors, we identified a credit balance of £130k within the debtors population. This credit balance is effectively a liability and therefore should be classified within creditors. Management have made this adjustment to the final accounts. This has no net impact on the reported deficit.	Adjust the balance sheet and the accompanying notes to present the £130k as a true liability rather than netting down debtors.	✓
£305k resilience payments	As part of our testing of payroll, we identified £305k of resilience contract payments incorrectly classified as expenditure on 'Support staff' when in fact these payments are made to Firefighters.	To reclassify £305k of the expenditure presented within the 'Support staff' line of the CIES to the 'firefighters' expenditure line	✓
Grant misclassification	From our work on grants, we noted that the Authority credited the local tax income guarantee (S31 grant) to services i.e. shown it above the line in the grant income section of the CIES. As this grant is non-ring fenced, this should be shown below the line, under 'taxation and non-specific grant income'. The value of the grant is £3,019k and therefore material. Having identified this issue, management reassessed all of their grants in terms of classification above and below the line. As part of this assessment, management identified two other grants there were misclassified: ▪ The Covid grant (£1.4m - rounded); ▪ Business rates (1.4m - rounded) The total reclassification in the 2020/21 accounts is therefore £5,811k. The total value of these grants in the 19/20 accounts was £1,518k. As this is just above materiality, management have restated prior year balances in line with IAS 8.	We have tested management's revised presentation of grants and we are comfortable that the judgements management have made is reasonable.	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure changes or issue	Detail	Auditor recommendations	Adjustment agreed?
Cashflow statement – EFA Trading	The EFA Trading LT share investment figure is not visible in the printed accounts, this is causing a casting error in the Net (increase)/decrease in cash and cash equivalents figure. Note that since this finding was noted, management has changed the classification of the EFA Trading figure to 'Short-term Investments' therefore this should no longer appear in the cash flow statement.	For TCWG to note the disclosure change in relation to the cashflow statement	✓
Note 7 - Assumptions made about the future and other major source of estimation uncertainty.	• In the draft accounts, management disclosed assumptions pertaining to provisions in this disclosure. As provisions are not material, under IAS 1 it is inappropriate to disclose it within this note as a major source of estimation uncertainty • The roll forward method has been used by management's actuary in the estimate for the net pension fund liability. This is a source of major estimation uncertainty that requires disclosure.	• Management to remove disclosure of provisions in this note under IAS1. • Management has added disclosure of the roll forward method as a source of major estimation uncertainty.	✓
Collection fund deficit on the face of the CIES	From our work on the tax and non-specific grant income, we noted that management included the Collection Fund deficit as a separate figure on the face of the CIES. We challenged management on the presentation of this figure in this year's draft accounts as it was inconsistent with the usual presentation and with prior year. Management's response was that as the deficit figure is material this year, management consider it an exceptional item and per CIPFA code such items can be shown as separate lines in the accounts. The audit team further challenged management's reasoning as readers of the accounts would find the draft presentation of this figure more confusing, rather than more informative	To amend the CIES to present Non Domestic Rates revenue gross, inclusive of the collection fund deficit. Management to add additional narrative to the bottom of the CIES to explain to the reader of the significant collection fund deficit included in the Non Domestic Rates figure.	✓

C. Audit Adjustments – misclassification and disclosure changes

Disclosure changes or issue	Detail	Auditor recommendations	Adjustment agreed?
Cashflow statement	Management has incorrectly presented the proceeds from the sale of assets in the adjustments for 'Items included in the net surplus or deficit on the provision of services that are investing or financing activities'. 3.4.2.76 of the CIPFA code requires that the carrying amount of non-current assets sold is recognised in the non-cash movements - in the draft accounts management recognises the gain on disposal of non-current assets there. Note, these adjustments have no net impact on the reported position of the Authority. They are all classification issues within the cashflow statement itself and do not impact the overall cash and cash equivalents balance.	Summary of changes required: • The 'carrying amount of non-current assets sold' should be -1,089k (previously 103k) in the non-cash adjustment movements in note 20. This gives a revised figure of -21,945k (previously -20,753k) for non-cash movements. • The proceeds from the sale of assets requires amending in the 'Adjustments for items included in the net surplus or deficit on the provision of services' from -1,192k to 1,192k. • These amendments gives a revised 'Net cash flow from operating activities' of -6,302k (previously -7,494k). • The proceeds from the sale of assets (cash inflow) should be shown under investing activities at -1,192k (previously 0k).	✓
EFA trading investment	The investment (£94k) in EFA trading (due to be dissolved in 21-22) should be a ST investment and has been classified within cash and cash equivalents in the draft financial statements. This is inconsistent with the treatment applied in the prior year accounts. This has no net impact on the reported position of the entity.	Management to reclassify the balance to the ST Investments.	✓
Financial instruments	The PWLB loan is correctly measured on the balance sheet at amortised cost. However, under the relevant reporting standards, management is required to disclose what the fair value of this instrument is. In line with IFRS 13, management is also required to disclose the hierarchy of instruments measured at fair value. This is not disclosed in the accounts.	Management has not disclosed the fair value hierarchy of financial instruments. Given the simple nature of financial instruments and there being only one instrument with a separate fair value assessment, we do not consider this to be a material omission.	Not corrected – not material

C. Audit Adjustments – misclassification and disclosure changes

Disclosure changes or issue	Detail	Auditor recommendations	Adjustment agreed?
Debtors misclassification	From our work on debtors we identified that the Income Protection (S31 grant) is included within the 'other entities and individuals' line. This is a misclassification as the grant is coming from government and therefore should be included in another line. The amount is £3,019k.	To disclosed the Income Protection grant within government grants within the debtors note	✓
Senior officers Remuneration	From our work on the senior officer remuneration note, we identified the following: The Chief Fire Officer, who earns above £150k, has not been named. In line with the CIPFA code, senior officers earning above £150k have to be named in the financial statements.	Management to ensure the employee earning above £150k is named in the financial statements.	✓

D. Fees

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

Audit fees	Proposed fee	Final fee
PFCCFRA Audit (excluding VAT)	£44,980	TBC
Total audit fees (excluding VAT)	**£44,980**	**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 2020-21.

E. Audit opinion - [to follow]

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

F. Audit letter in respect of delayed VFM work

Roger Hirst

Police, Fire and Crime Commissioner for Essex

Kelvedon Park,

Rivenhall, Witham,

Essex, CM8 3HB

24 September 2021

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 Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 December 2021.

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

grantthornton.co.uk