

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

Year ended 31 March 2020

January 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the Police, Fire and Crime Commissioner for Essex (the PFCC) and the Chief Constable for Essex for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the PFCC, Chief Constable and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Joint Audit Committee on 25 September 2020.

Respective responsibilities

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

- give an opinion on the group and PFCC and the Chief Constable's financial statements (section two)
- assess the PFCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

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

Our work

Materiality	We determined materiality for the audit of the group, PFCC and Chief Constable's financial statements to be £6,000,000, which is 2% of the Chief Constable's prior year gross revenue expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the group, PFCC and Chief Constable's financial statements on 17 November 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the local government pension scheme in both the PFCC and the CC report given the Coronavirus pandemic.</p> <p>We also included an emphasis of matter paragraph in our PFCC report in respect of the uncertainty over land and buildings as a result of the Coronavirus pandemic.</p> <p>This does not affect our opinion that the statements give a true and fair view of the group, PFCC and Chief Constable's financial position and its income and expenditure for the year</p>
Whole of Government Accounts (WGA)	We completed work on the group's consolidation return following guidance issued by the NAO. We submitted a completed assurance statement on 17 November 2020.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the PFCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the PFCC and Chief Constable on 17 November 2020
Certificate	We certified that we have completed the audit of the financial statements of the group, PFCC and Chief Constable in accordance with the requirements of the Code of Audit Practice on 17 November 2020.

Working with the PFCC and Chief Constable

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the PFCC and Chief Constable's teams .

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

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

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

We set a lower threshold of £300,000, above which we reported errors to the those charged with governance in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the group, PFCC and Chief Constable and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>1. Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>In response to the risk highlighted in the Audit Plan addendum, we:</p> <ul style="list-style-type: none"> worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the PFCC's property valuation expert and the impact of the HMT consultation on the pension fund valuation. evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; evaluated whether sufficient audit evidence could be obtained through remote technology; evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations ; evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. 	<p>Finding:</p> <p>The PFCC's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the property sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p> <p>In addition, the valuer for the Local Government Pension Scheme's property investment assets declared material valuation uncertainties around the valuation of these investments on the same basis.</p> <p>Management agreed to disclose these material uncertainties in Note 6 to the PFCC's and Chief Constable's financial statements. This disclosure was referred to in our auditor's reports for the Chief Constable and PFCC and group in an emphasis of matter paragraph. These references did not constitute qualifications of the audit opinion.</p> <p>Conclusion:</p> <p>With the exception of the 'material valuation uncertainty' issue set out above, our work did not identify any further material issues in relation to the Covid-19 risk.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>2. Valuation of land and buildings</p> <p>The PFCC and Group revalue their land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£70.9 million as at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management need to ensure the carrying value in the PFCC and Group financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings as a significant risk of material misstatement.</p>	<p>In response to the risk highlighted in the Audit Plan, we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and tested revaluations made during the year to see if they had been input correctly into the PFCC (and group's) asset register. evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these are not materially different to current value at year end. 	<p>Finding:</p> <p>As discussed under 'Covid-19' above, the Authority's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the property sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management disclosed this uncertainty in Note 6 to the PFCC's and Group financial statements. This disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This did not constitute a qualification of the audit opinion.</p> <p>Our work around the accuracy of floor areas identified that the information used by your Valuer was inaccurate. This issue was followed up by management which resulted in the Authority obtaining new valuations for two properties which reduced the value of your assets by £3.443m as at 31 March 2020.</p> <p>Conclusion:</p> <p>With the exception of the two findings set out above, our work did not identify any further material issues in relation to the valuation of land and buildings risk.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>3. Valuation of net pension liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Police Officer Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>In response to the risk highlighted in the Audit Plan, we:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation; • assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Essex County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>Finding:</p> <p>As discussed under 'Covid-19' above, the valuer for the Local Government Pension Scheme's direct property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p> <p>Management agreed to disclose this material uncertainty in Note 6 to the PFCC's and Chief Constable's financial statements. This disclosure was referred to in our auditor's reports for the Chief Constable and PFCC and group in an emphasis of matter paragraph. These references did not constitute qualifications of the audit opinion.</p> <p>Continued overleaf...</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	Findings and conclusions
<p>4. Valuation of pension fund net liability</p>	<p>Subsequent event - Impact of HMT Consultation on police pension scheme</p> <p>Background</p> <p>On 16 July 2020 HM Treasury published their Public service pension schemes consultation which contained the proposed remedy regarding the McCloud/Sargeant remedy.</p> <p>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.</p> <p>The approach used when calculating the past service cost in respect of McCloud/Sargeant in 2018/19 pension liabilities and the current service cost in respect of McCloud/Sargeant in 2019/20 accounts was to assume that all members who were in service on 1 April 2015 would be eligible. At the point of producing these estimates, details of the case and the potential form of the eventual remedy were still unclear, and it was necessary to make assumptions for many of the details. Therefore, when compared to the eligibility set out in HMT's consultation document, the approach adopted by actuaries in assessing the impact of McCloud/Sargeant would overstate the potential liability.</p> <p>Management's judgement:</p> <p>Events after the reporting date are required to be considered under IAS 10.</p> <p>IAS 10 states that there are two types of events:</p> <ul style="list-style-type: none"> • Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and • Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period). <p>On 30 September 20, CIPFA issued a supplement to CIPFA Bulletin 05, which stated that the issuance of the HMT consultation would be considered an adjusting event in accordance with para 3.8.2.1 (a) of the Code. In light of this further guidance from CIPFA, management have reviewed the accounting treatment and have concluded that the impact of the HMT Consultation should be treated as an adjusting event. This is because the HMT Consultation is considered to provide more information pertaining to assumptions linked to an estimate, the conditions of which existed at the end of the reporting position.</p> <p>Continued overleaf...</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	Findings and conclusions
<p>4. Valuation of pension fund net liability</p>	<p>Subsequent event - Impact of HMT Consultation on police pension scheme</p> <p>Auditor's consideration:</p> <p>Following receipt of management's revised judgement, we undertook work to assess its reasonableness. This involved communication with GT's internal actuarial expert as well as our internal audit technical team. Based on this work we are satisfied that management's judgement is reasonable.</p> <p>Additional work was then performed to ensure the estimate produced by management's actuarial expert based on the revised eligibility criteria assumption was reasonable. No issues was identified as part of this work.</p> <p>Impact on the accounts:</p> <p>Management requested a revised report from its actuary which reflects the HMT consultation in the assumptions which underpin the estimates for the pension liability and service costs in line with IAS 19. The impact of this change in the assumptions was to reduce the pension liability by £12.782m.</p> <p>This adjustment has been made to the final accounts. We are also satisfied that adequate disclosures in line with IAS 10 have been made.</p> <p>Conclusion</p> <p>From the results of our work we were satisfied that we had obtained sufficient appropriate evidence over the risk set out in the audit plan.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>4. Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>In response to the risk highlighted in the Audit Plan, we:</p> <ul style="list-style-type: none"> 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. 	<p>Conclusion</p> <p>Our work did not identify any material issues in relation to the management override of controls risk.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group, PFCC and Chief Constable's financial statements on 17 November 2020.

Preparation of the financial statements

The group, PFCC and Chief Constable presented us with draft financial statements in July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Restrictions for non-essential travel meant the group, PFCC and Chief Constable's staff and audit staff had to adapt to remote working arrangements. Your finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Both teams were flexible in approaches to sharing information. We used video calling to watch your finance team run the required reports to gain assurance over the completeness and accuracy of information produced by you. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries has taken longer than face to face discussion. Regular meetings were held with finance staff to highlight key outstanding issues and findings to date. We have used a query log to track and resolve outstanding items, ensuring that the process was as smooth as possible.

The audit progressed and we were able to issue the opinion in advance of the revised statutory deadline of 30 November 2020.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the PFCC and the Chief Constable on the 25 September 2020 with the final version being shared with the Police, Fire and Crime Commissioner, Chief Constable and chair of the Audit Committee on 12 November 2020.

In addition to the key audit risks reported above, we identified a number of issues throughout our audit that we have asked management to address for the next financial year: Refer to appendix B for details.

Annual Governance Statement and Narrative Report

We are also required to review the Joint Annual Governance Statement and Narrative Reports. It published them on its website within the draft Statement of Accounts in July 2020.

Following the completion of our audit work and the publication of our audit report, management has since uploaded its audited financial statements which also contains the Annual Governance Statement and Narrative Report.

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

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the group was below the audit threshold on 17 November 2020.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Essex Police, Fire and Crime Commissioner in accordance with the requirements of the Code of Audit Practice on 17 November 2020

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

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

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the PFCC and Chief Constable each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2020.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Police and Crime Plan

The 2016-2020 Police and Crime Plan for Essex is approaching maturity as it moves into the final year of its term. Given the rise in demand for policing services coupled with continued public sector austerity, there is a real challenge to deliver the outcomes set out in the police and crime plan. In the latest performance report available on the PFCC website (October 2019), performance indicators in four of the seven police and crime plan priorities were assessed as 'requires improvement'.

Findings and Conclusions

The PFCC has published an extension to the Police and Crime Plan, covering the period arising due to the government decision to defer PFCC elections from 2020 to 2021 due to the Covid-19 pandemic.

The plan focuses on the continuing 7 priorities but provides further detail on the indicators that are used to measure success. We commend this approach. The additional detail regarding the indicators further assists the plan to be understandable and helpful to the public and facilitates independent and objective success measures to be considered and communicated.

The plan was widely consulted and stakeholders commented highly favourably on the level of consultation that took place and the measures set out within the plan, which are well focused and enable transparent assessment of performance to take place.

You have arrangements in place to deliver the plan across a complex partnership structure. You have measures against which to assess progress and report effectively and transparently to stakeholders and the public.

On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial strategy and long term sustainability

Police funding continues to be stretched with increasing cost pressures and complexity. The NAO reported in September that in real terms, central government funding for Forces had fallen by 30% since 2010/11, this being during a period when crime rates have been on the rise. In the last 18 months however, pessimism has given way to cautious optimism in terms of the future financial outlook.

Whilst the direction of travel is positive, there remains a high level of uncertainty around some of the detail, in particular, the long term capital and revenue funding envelope to fund the additional 20,000 officers.

Whilst the policing sector universally welcomes funding for additional police officers, there is a risk that increased scrutiny and pressure on officer numbers focuses long term decision making on the inputs of policing rather than outcomes. This funding also comes with enhanced and significant expectations from government in terms of demand management and crime response, and the pressure to demonstrate an immediate return will be significant and, potentially, not possible.

We will review updates to your medium term financial strategy, assess the gaps in savings requirements, and assess the extent to which your financial plans are aligned with realistic outcomes from the transformation programme and benefits realised, as well as the reasonableness of assumptions underpinning the strategy.

We will also assess how well your arrangements will enable you to respond to increased government expectations in response to the additional funding.

Findings and Conclusions

Essex Police has historically maintained low levels of reserves. This has been supported by robust financial planning and a strong understanding of the financial position and financial risks facing policing in Essex, and a good understanding of the budgetary position.

The Covid-19 pandemic has resulted in additional costs for the Force although, as a whole, the police sector is less affected by the pandemic, financially, compared to other sectors (including local government) as there is less exposure to commercial income risk. The Force and PFCC have responded well to the increased financial challenges arising from the pandemic and taken these into account in their financial plans.

We have reviewed updates to your medium term financial strategy, assessed the gaps in savings requirements and assessed the extent to which your financial plans are aligned with wider economic considerations, as well as the reasonableness of assumptions underpinning the strategy. We consider your plans to be reasonable and based on appropriate assumptions. Notwithstanding this, we recognise, as do you, the increased financial risks facing all forces over the next few years.

Our analysis of police reserves, based on unaudited police accounts across the UK for 2019/20, indicates Essex now has the lowest level of reserves in the UK. With a budgetary gap of circa £24m over the next 4 years, in the medium term financial plan (including Covid-19 assumptions), the contingency for further financial risk is increasingly limited.

The strong and robust financial management has served the Force and PFCC well in recent years. The careful financial planning has enabled you to mitigate the financial risks without requiring significant reserve levels as a contingency. However, the pandemic has brought about significant increased uncertainty and macro-economic risk. Whilst the strong financial arrangements you have in place will continue to provide an element of mitigation, consideration needs to be given as to whether the low reserves policy will continue to provide sufficient contingency to weather the significantly increased financial risks over the next few years. This also includes ensuring the Force can respond to the enhanced expectations from government in reducing violent crime and ensuring you have sufficient investment in place to not only recruit your share of the 20,000 officers funded by central government but to fund the increased overhead and support services that the increase in establishment will require.

Your historic understanding of financial risk, and responses to that risk, are strong, and should continue to serve you well, notwithstanding the increased risk exposure arising from current circumstances.

On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.

You are aware of the increased financial risk facing all forces and, indeed, sectors given the economic situation, and of the need to fully consider how this is best managed in formulating your financial plans for the next few years.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Governance arrangements for partnership working

Essex Police has a rich history of collaboration; working with partners is something you consider has become embedded in your business planning strategy. Your 2019 HMICFRS inspection commented positively on your partnership working.

We will assess the effectiveness of governance arrangements supporting your working with partners to deliver expected benefits.

Findings and Conclusions

You have a number of major partners with whom you are engaged in collaborative arrangements, including 'Athena' with nine forces and the 'Joint Support Services Directorate' with Kent Police. Given that these arrangements are critical to your long-term financial and operational sustainability, the need to have effective governance arrangements to oversee, monitor, scrutinise and deliver expected benefits could not be underestimated. You also partake in the '7-forces' collaboration work and hope to drive greater benefit from this framework in the medium to long term.

Your partnership arrangements are well-established and relatively mature. You are keen to derive benefits from cross-force and cross-border collaboration and understand the risks and governance considerations required in doing so. You recognise where some partnerships are not deriving the level of benefits you would want but take a positive and engaging approach to supporting partners to drive better outcomes.

HMICFRS has also recognised the positive nature of your partnership working arrangements.

On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.

Transformation programme and benefits realisation

A significant proportion of the discretionary investment spend and planned savings within your medium term forecast relates to change and transformation programmes within the organisation. This in turn depends on planned benefits from transformation being realised in line with business case forecasts.

Delivery of financial and non financial benefits is key to your transformation success and long term financial sustainability. We will assess how well you identify and measure financial and non-financial benefits in relation to your transformation programme.

Your arrangements to support transformation continue to mature. Understanding of financial and non-financial benefits continues to improve. Whilst responding to the changes required due to Covid-19 understandably affects the timeframes involved, you are also using the opportunity to identify the learning from the arrangements in place due to Covid-19, and identifying which arrangements you should adopt permanently, which you should abandon and which you may wish to continue to amend to maximise benefit. This is a mature and commendable approach to investing in future efficiencies.

On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	13 March 2020
Audit Findings Report	12 November 2020
Annual Audit Letter	January 2021

Fees

	Planned £	Actual fees £
PFCC Audit	37,996	40,496
Chief Constable Audit	12,000	12,000
Total fees	49,996	52,496


Audit fee variation

As outlined in our audit plan, the 2019-20 fee assumes that the scope of the audit does not significantly change. There was one area where the scope of the audit has changed, which has led to additional work. This is set out in the following table.




Area	Reason	Fee proposed
PPE Valuation – accuracy of floor areas	<p>Our testing of non-financial information identified material inaccuracies between floor areas used by your valuer and floor areas held on your source estates system.</p> <p>This led to significant unplanned additional work to check the floor areas of all assets including those valued for IFRS 16 purposes.</p> <p>The additional work led to management obtaining a revised valuation for several assets and audit adjustments were made to your draft financial statements.</p> <p>A control recommendation has also be raised in respect of this issue, more information is set in appendix B.</p>	£2,500
Total		£2,500

B. Financial statement audit action plan

We have identified 3 recommendations for the Group, PFCC and Chief Constable as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations	Management's Response	Implementation date
1	 <p>Bank reconciliation process</p> <p>As part of our planned audit procedures, we reviewed your operational bank account year-end reconciliations.</p> <p>For two of your operational bank accounts (payments and revenue), the bank reconciliation initially supplied by management was incomplete and difficult to understand. Both reconciliations detailed a significant amount of reconciling items, many of which were said to have cleared the bank statement prior to 31 March but was not recorded in the accounts. In addition, the reconciliations did not reconcile.</p> <p>Whilst our audit work has provided us with sufficient assurance to conclude that your accounts are free from material error, the lengthy process required in order for us to arrive at this position is evidence that the processes and controls in relation to your bank reconciliations require review.</p>	<p>Management should review the processes and controls in relation to bank reconciliations to ensure they are completed in a timely fashion and reconcile all cash movements in the period.</p> <p>The current process is heavily manual and capacity issues can lead to bank reconciliations being incomplete. In this review, we encourage management to explore digital solutions and best practice from other entities.</p>	<p>We accept that a review of the amount of historic unposted items and the general processes adopted for 2019/20 is required.</p> <p>In addition to the process change, new holding accounts will be implemented, thus reducing the amount of unreconciled items which will be held on the face of the reconciliations in future.</p> <p>This is subject to final sign-off by the Section 151 officer</p>	<p>Review and implementation of new controls will be completed by 31st March 2021.</p> <p>This is subject to approval by the Section 151 officer.</p> <p>Responsible owner: Matthew Tokely Corporate Accounting Manager</p>

Controls

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

B. Financial statement audit action plan (continued)

Assessment	Issue and risk	Recommendations	Management's Response	Implementation Date
2	<p>Seized monies</p> <p>As part of our audit we identified POCA third party cash is co-mingled in the PFCC operational bank accounts from which payments and investments are made. As at 31 March, the POCA cash co-mingled in operational bank accounts was circa £2.1m.</p> <p>Given that the third-party cash does not belong to the PFCC, we recommend that management set up a separate non-operational bank account for third party cash to be deposited and maintained. In doing so, the PFCC would no longer inappropriately benefit from cash which is not theirs.</p> <p>The other reason we are recommending the PFCC to stop co-mingling third party cash is that it reduces the risk of third-party cash being incorrectly recognised on the balance sheet. This is because the current process requires third party deposits to be manually identified and coded during the reconciliation process. This is particularly important given the weaknesses identified in the controls around the reconciliation process as set out on the previous page.</p>	<p>Management should set up a separate non-operational bank account to deposit and maintain third party monies.</p>	<p>There have been no issues in respect of misstatements between force funds and those held by third parties since the process was initiated in 2012/13</p> <p>Nevertheless, in the interest of transparency management accept this proposal and a new bank account will be opened. This will mean a change of treasury management, cash collection and banking procedures, all of which will be incorporated into the proposed changes.</p>	<p>The new bank account will be in operation from the 2021/22 financial year.</p> <p>This is subject to final PFCC approval.</p> <p>Responsible owner: Matthew Tokely Corporate Accounting Manager</p>

Controls

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

B. Financial statement audit action plan (continued)

Assessment	Issue and risk	Recommendations	Management Response	Implementation date
3	<p>Accuracy and Completeness of non-financial information sent to the Valuer</p> <p>The issue identified from our substantive work was that floor area information that the Valuer was sent to use in their valuation calculations was inaccurate. There were two reasons why the information was inaccurate.</p> <p>a) Management had not sent the latest floor area information each year, rather, the Valuer had been using legacy floor area several years old that was now out of date.</p> <p>b) The original floor information sent was not calculated on the correct basis. The NIA's sent to the Valuer were based on models rather than being a true reflection of the asset itself.</p> <p>Whilst significant additional work was performed this year to ensure that this issue did not manifest into a material misstatement in the accounts, there remains the control weakness that management needs to address for future accounting periods.</p>	<p>Management should ensure up to date non-financial information is sent to the Valuer at least annually.</p> <p>Management should work with Estates to implement a control procedure to review and check the accuracy and completeness of non-financial information prior to it being sent to the Valuer. This control procedure should be documented to ensure there is evidence of its operation.</p>	<p>This was an unforeseen issue, with management not aware that the Estates team were basing their valuation requests on floor area data that was historic and outdated. Steps were taken to correct the assets impacted during the 2019/20 valuation process and going forward all of the floor area information for the valuations required for the 2020/21 closedown process will be updated. It is proposed to move the 2020/21 valuation dates back to 28/2/21, allowing more time for the floor area information to be updated as well as minimising the impact of market valuation swings up to the year-end date. In addition, extra review time will be built into the closure timetable to ensure extra checks are undertaken by the Corporate Finance team to ensure all information requests to the valuer are up to date and a true reflection of the assets concerned.</p>	<p>Review and implementation of new controls will be completed by 31st March 2021.</p> <p>This is subject to approval by the Section 151 officer.</p> <p>Responsible owners: Matthew Tokely Corporate Accounting Manager</p>

Controls

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



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