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

Year ended 31 March 2020

December 2020

Contents

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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 Essex Police, Fire and Crime Commissioner (PFCC) Fire and Rescue Authority (the Authority) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Authority 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 Audit Committee in our Audit Findings Report on 24 July 2020 with a further updated report communicated to both the PFCC and the chair of the audit committee on the 22 October 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 Authority's financial statements (section two)

assess the Authority'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 Authority'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 Authority's financial statements to be £1,200,000, which is 2% of the Authority's prior year gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 27 October 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Authority's land and buildings and the property assets of its local government pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO. We submitted a completed assurance statement on 23 November 2020.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 27 December 2019.
Certificate	We certified that we completed the audit of the financial statements of the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice on 23 November 2020.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Police, Fire and Crime Commissioner Fire and Rescue Authority finance team, management, directors and other staff during our audit.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority'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 Authority's financial statements to be £1,200,000, which is 2% of the Authority's prior year gross revenue expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We set a lower threshold of £60,000, above which we reported errors to 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 financial statements, the narrative report and the annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Authority and with the financial statements included in the Annual Report 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 Authority'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
1. Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority/Fund faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	As part of our work we: • 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.	**Finding:** In the same way as in the prior year, our work on journals we identified that three 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 2019/20 have been approved through this super user access. **Conclusion** 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.

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan (addendum)	How we responded to the risk	Findings and conclusions
2. Covid-19 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; • 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. 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.	In response to the risk highlighted in the Audit Plan addendum, we have: • 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.	**Finding:** 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. 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 Management agreed to disclose these material uncertainties in Note 6 to the Authority's financial statements. These disclosures have been referred to in our auditor's reports for the Police, Fire and Crime Commissioner for Essex Fire and Rescue Authority in an emphasis of matter paragraph. These references do not constitute qualifications of the audit opinion. **Conclusion** 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.

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
3. Valuation of land and buildings Following an audit recommendation we raised in 2018-19, management have revised the accounting policy in relation to the revaluation of land and buildings. Instead of assets being revalued on a five-yearly basis, each asset will be subject to revaluation each year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£126 million at prior year end) 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.	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; • 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.	**Finding:** 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 have disclosed this uncertainty in Note 6 to the financial statements. This disclosure has been referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. **Conclusion** 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.

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
4. Valuation of 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 (£743 million), and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk of material misstatement.	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; • 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.	**Finding:** As discussed under 'Covid-19' above, the valuer for the Local Government Pension Scheme's pooled 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. Management agreed to disclose this material uncertainty in Note 6 to the Authority's financial statements. This disclosure has been referred to in our auditor's report for the Authority in an emphasis of matter paragraph. This reference does not constitute a qualification of the audit opinion. **Continued overleaf…**

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	Findings and conclusions
4. Valuation of pension fund net liability	**Subsequent event - Impact of HMT Consultation on police pension scheme** **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. 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. **Management's judgement:** Events after the reporting date are required to be considered under IAS 10. IAS 10 states that there are two types of events: • 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). 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. **Continued overleaf…**

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	Findings and conclusions
4. Valuation of pension fund net liability	**Subsequent event - Impact of HMT Consultation on police pension scheme** **Auditor's consideration:** 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. 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. **Impact on the accounts:** 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 £2,599m. More details are set out in appendix C. This adjustment has been made to the final accounts. We are also satisfied that adequate disclosures in line with IAS 10 have been made. **Conclusion** 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.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 27 October 2020.

Preparation of the financial statements

The Authority presented us with draft financial statements in accordance with the revised national deadline, and a set of working papers to support them.

Restrictions for non-essential travel have meant Authority staff and audit staff have 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 have had to be flexible in approaches to sharing information. We agreed to use 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 have 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 to plan and we were able to issue the opinion significantly 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 Authority's Audit Committee on 24 July 2020 with a further update being shared with the Police, Fire and Crime Commissioner and the chair of the Audit Committee on the 22 October 2020.

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

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website within its unaudited financial statements in line with the national deadlines. Following the completion of our audit work and the publication of our audit report, the Authority 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 Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work on the Authority's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold.

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 Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice on 23 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 Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

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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	Findings and Conclusions
Fire and Rescue Plan You have recently launched your Fire and Rescue Plan (2019-2024) setting out your eight priorities for the next five years. We will assess arrangements in place to deliver the plan. We will also assess the arrangements in place to identify measures against which to assess progress and report effectively and transparently to stakeholders and the public.	The Fire and Rescue Plan details the 8 priorities and why they are important to the public. The plan is easy to read and accessible to the electorate. It demonstrates alignment with the National Fire and Rescue Framework for England and sets out clear measures for each priority which are easy to understand and enable success to be independently and objectively considered and assessed. **On this basis, we have concluded the arrangements in place are sufficient to mitigate the risk identified for 2019/20.**
Cultural change programme Following recommendations made in the Lucas Review Report in 2015, you began implementing a cultural change programme. We will assess the effectiveness of governance arrangements in place to plan and implement the next phase of the cultural change programme and drive transformation in behaviours, culture and ways of working.	You have continued to make positive strides forward in response to this. You have considered in detail the responses to the recommendations in the Lucas review and strengthened the communication of progress in respect of these, allowing you to demonstrate where actions have been 'completed', and enabling you to focus on forward looking priorities arising from your progress to date. Cultural change is being embedded with deliberation and changes in processes and frameworks, and it is clear a significant amount of thinking has gone in to the best way of effecting change within the context and environment of the service in Essex. Progress over the past few years was comprehensively documented and presented to TCWG, management and the audit committee during the year, and consensus was reached in being able to accept and 'sign off' completed actions and focus on emerging priorities arising from the journey to far, consolidated into 13 key themes. **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	Findings and Conclusions
Collaboration with the Police under the PFCC structure Since October 2017 you have been working under new governance arrangements with governance vested in the Police, Fire and Crime Commissioner. These arrangements aimed to drive operational and financial efficiencies. We will review the arrangements in place for collaboration with the Police and assess the extent to which the benefits articulated in the business case for change have been realised.	Your arrangements to drive transformation and change are in their early stages. Management is able to articulate the overarching objectives and understands the critical success factors needed within the arrangements to achieve them. The Covid-19 pandemic has understandably slowed progress, but management is also using this as an opportunity to identify other ways of working that may provide longer term benefits. You recognise that availability of sufficiently skilled personnel to drive the programmes is an issue. You recruited to the PMO office earlier in the year, but continued to face a shortage of business analysts, and challenges in identifying capacity from station managers to engage and drive on the ground change. You also recognised the need for greater engagement from the SROs. You had identified, pre-Covid-19, circa 20 programmes for change. There was an appreciation from management that there was a general awareness of 'what needed to be fixed', but not necessarily the knowledge and capabilities to know how to fix them – a view we concurred with and one which in itself demonstrated sound judgement in identifying skills gaps – an essential requisite to enable you to then mitigate those gaps. Your portfolio of change programmes was ambitious and may benefit from some stream-lining, as well as a considered analysis of what represented genuine transformation and what represented changes in transactional processes which do not require the same level of oversight. This would enable you to focus your emerging arrangements on the areas requiring greater challenge and support, and those likely to bring about greater transformational change over the medium term. Whilst your arrangements are in the early stages, there is a good understanding of what you want to achieve and appreciation for the skills need to achieve it, even if they are not currently within the organisation. It will be important to focus on streamlining the transformation portfolio and strengthening the capabilities in place for medium term success in delivering these plans. **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	Findings and Conclusions
Financial strategy and long term sustainability In previous years you have used your reserves to balance your budget. In your Medium Term Financial Strategy to 2024 you plan to use a further £4m of reserves and need to identify and deliver £4.3m of efficiencies. We will review updates to your medium term financial strategy, assess the gaps in savings requirements, and assess the long term sustainability of your reserves strategy, as well as how well your planned use of reserves is articulated in your strategies.	You have continued to develop your arrangements in respect of financial planning and the inter-connectivity with other strategic plans within the service. The substantive appointment of a new Director of Finance during the year has brought a new dynamic to the arrangements and a ‘non-Fire’ perspective, enriching the experience and capabilities of the senior management team. You have responded well to the Covid-19 pandemic, operationally and financially, re-diverting employees to focus on areas where they are needed most, changing the nature of your services in response to lockdown arrangements, and ensuring you have a good understanding of the financial cost implications of the pandemic on the organisation. You have challenged budget holders to identify additional savings with the aim of reducing the 2021/22 budget requirement. We reported previously on the need to better integrate your workforce strategy and MTFP. This remains a work in progress but you are able to better articulate how the Annual Plan, Integrated Risk Management Plan, Change Plan and the MTFP inform each other. You recognise the need, linked with the previous section, to better capture and articulate non-financial benefits and ensure they are used to best effect – for example, maximising the benefit of time saved from reduced absences. As you continue to identify the series of projects and programmes to deliver the transformation you desire over the next few years, and ensure the delivery of the culture change and collaboration business cases, the reserves strategy needs to be updated accordingly. As you part of this update, you may wish to consider your powers to use capital receipts flexibly. 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. **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 and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	13 March 2020
Audit Plan Addendum (Covid-19 Risk)	14 May 2020
Audit Findings Report	22 October 2020
Annual Audit Letter	XX December 2020

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	34,980	34,980	43,880
Total fees	**34,980**	**34,980**	**34,980**

B. Financial statement audit action plan

We identified 3 recommendations for the Authority as a result of issues identified during the course of our financial statement audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we 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	●	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. Refer to appendix C for details of the adjustment made.	• Decisions regarding earmarked reserves should be documented in writing, with an official record kept of such decisions • All reserves earmarking decisions should be reflected in the accounts before they are presented for audit, published on the website in compliance with the Authority's legal requirements under the Local Audit and Accountability Act 2014 and recommended for approval by the audit committee.	A formal Reserves Strategy will be produced to agree earmarked reserves. This will be presented to the Strategic Board with approval appropriately documented.	A review will take place by 31st March 2021. The final reserves position will be agreed prior to Audit Committee approval and publication of the draft accounts. **Responsible owner:** Neil Cross Chief Financial Officer
2	●	As part of our work on the journal I.T. control environment we identified three 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.	Review systems access to your financial systems and ensure super user access is restricted to appropriate persons.	We will perform a review of user access and assess if the risk is appropriately mitigated by the current control environment. Additional controls will be implemented where required.	We will perform the review and assessment of controls by 31st March 2021. **Responsible owner:** Austin Page Finance and Compliance Manager

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
3	Medium	As part of our work on your full revaluation exercise, we identified 12 assets (£3.1m) which were classified as surplus in the valuers report but were not classified as surplus in your statement of accounts. In response to our challenge, management provided us with a formal judgement setting out a rationale as to why the assets were not surplus and therefore correctly included within operational land and building. Whilst we are satisfied that the judgement is reasonable, these assets were nevertheless incorrectly valued at Fair Value, instead of Existing Use Value (EUV) as required by the Code. Whilst we are satisfied that the difference in valuation methodology does not lead to a material misstatement, it does indicate a weakness in the controls put in place by management pertaining to the valuation exercise.	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.	We will review our processes to ensure assets are reviewed alongside the framework, ensuring all judgements regarding classification are appropriately considered and documented.	This review will take place by 31st March 2021. **Responsible owner:** Austin Page Finance and Compliance Manager

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

C. Audit Adjustments

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.

		Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Overall impact
1	**Impact of HMT Consultation on police pension scheme** 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 £2,599k. This results in changes to the Authority's Comprehensive Income and Expenditure Statements, Balance Sheets and Movement in Reserves Statements, as well as a number of the Notes to the financial statements including the Expenditure and Funding Analysis (EFA) and supporting notes to the EFA, adjustments between accounting basis and funding basis, Unusable Reserves and Defined Benefit Pension Schemes. For the avoidance of any doubt, the impact of this adjustment has no impact on the useable reserves of the Authority. Note this is not a misstatement however is an amendment made to the accounts based on new available information post submission of the accounts to audit.	**CIES Past Service Cost** (2,599)	**Firefighters' Pension Liability** 2,599	**CIES** (2,599) Impact on the CIES is reversed through the MIRS into unusable reserves
2	**Earmarked reserves reprofiling** Subsequent to the conclusion of the audit, the Authority amended the accounts to ear mark additional general fund reserves, totalling movements of £4.6m. This amended the General Fund reserve from £8.1m to £3.4m and the earmarked reserves from £5.9m to £10.5m. In addition to the balance sheet, relevant disclosures within the Narrative Report, the MIRS and note 8 'Transfers to/from Earmarked Reserves' has been revised.	Nil	**General reserve** 4,663 **Earmarked reserve** (4,663)	Nil