



Essex Police, Fire and Crime Commissioner Fire and Rescue Authority

Decision Report

Please ensure all sections below are completed

Report reference number: 035-24

Government security classification: Not protectively marked

Title of report: Closure of the Audit of the Statement of Accounts for the year ended 31 March 2023, with a modified opinion for the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority

Area of county / stakeholders affected: Countywide

Report by : Neil Cross; Chief Finance Officer

Date of report: 28 June 2024

Enquiries to: As above

1. Purpose of the report

- 1.1. The purpose of this report is to seek approval to the closure of the audit of the Statement of Accounts for the year ending 31 March 2023 with a modified opinion for the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority (EPFCCFRA) and authorise signing of the audited Statement of Accounts.

2. Recommendations

- 2.1. That the Essex Police, Fire and Crime Commissioner (PFCC) agrees to the closure of the audit of the Statement of Accounts with the following modified opinion from the external auditors:

Report on the audit of the financial statements
Qualified opinion on financial statements

We have audited the financial statements of Essex Police, Fire and Crime Commissioner Fire and Rescue Authority (the 'Authority') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies and include the Firefighters' Pension Fund financial statements comprising the Firefighters' Pension Fund Account, Firefighters' Pension Fund Net Assets Statement and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for qualified opinion

The Authority is a member of a multi-employer pension scheme and as at 31 March 2023 the Authority held a share of Essex Pension Fund's assets (£69,666,000) and liabilities (£74,349,000), the net liability of £4,683,000 of which is included in the balance sheet at 31 March 2023.

Auditor Guidance Notes are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014. The NAO issued Auditor Guidance Note 07 (AGN 07) on 31 January 2023. Paragraph 31 of AGN 07 refers to the voluntary protocol that auditors have agreed with each other and the NAO in respect of the provision of assurances concerning defined benefit pension plans.

The external audit of the Essex Pension Fund is not yet concluded for 2022/23 and Pension Fund assurances under AGN 07 are not available. There is uncertainty over the timing of when the Pension Fund audit will be concluded. In the current circumstance, the only means for us to get assurance over the Pension Fund assets and liabilities disclosed in the accounts would be to audit the Pension Fund directly and undertake alternative procedures. This would not be in the interests of the public purse. Management have stated that in the interests of openness and transparency they wish to publish signed accounts for stakeholders. To limit further delays, management have determined it appropriate to limit the scope of our work in respect of the defined benefit pension plan net liability as disclosed in the balance sheet and associated Pension Fund asset and liability disclosures in the financial statements. Consequently, we have been unable to determine whether any adjustment to the Authority's share of Essex Pension Fund's assets and liabilities, or other amounts disclosed in the financial statements in respect of the share of assets and liabilities, are necessary. In addition, were any

adjustment to the defined benefit pension plan net liability to be required, the narrative report would also need to be amended.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

2.2. In the interest of transparency and to provide stakeholders with access to the information in the Statement of Accounts, as early as possible, the PFCC has published the Statement of Accounts for the year ended 31 March 2023 under decision sheet 019-24. Now that Grant Thornton is able to finalise the audit of the 2022/23 financial statements, the PFCC is also recommended to:

- Note the additional wording that has been added to Page 89 of the financial statements and sign the Statement of Accounts at page 20 and page 34
The Authority is required to take notice of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, following the LGPS moving from a net defined benefit liability to a net defined benefit asset position in 2022/23, and need to consider whether there is an asset ceiling that would limit the Authority's ability to recognise this asset. The asset ceiling is measured at the lower of the surplus in the defined benefit plan and the asset ceiling, calculated as an estimate of the present value of the economic benefit which the employer can realise through either; a) refunds or b) through reductions in future contributions. Based on the application of these calculations, the Authority has applied an asset ceiling of £14.6m in 2022/23 (2021/22 £nil), which has reduced the overall pension asset recognised to a liability of £4.7m (2021/22 £30.3m).
- Agree that the PFCC’s signs the Statement of Accounts (Pages 20 and 34) and these are dated in line with the date the PFCC signs this decision report.
- Approve the publication of the final audited statement of accounts for 2022/23.
- Sign off the letter of representation for 2022/23.
- Publish the final audit findings report for 2022/23.

3. Benefits of the proposal

3.1 The PFCC, has written to both the Home Secretary and the Parliamentary Under-Secretary of State (DLUHC) regarding his concerns over the failures of the Public Sector Audit (PSAA)’s national scheme. The Essex PFCCFRA, along with the Essex PFCC, The Essex Police, Fire and Crime Commissioner Group

and the Essex Chief Constable, are amongst a small number of local bodies, who have not opted into the PSAA scheme.

- 3.2 We consider that it is because of the decision not to opt into the PSAA scheme that we have no audit backlogs and have published the Statement of Accounts for the year ended 31 March 2022, alongside the independent auditor's reports and the unmodified audit opinions. We were also able to publish our draft Statement of Accounts for the year ended 31 March 2023, to the deadline of 31 May 2023.
- 3.3 We believe that the current audit crisis has arisen due to the perverse impact of the PSAA scheme on the market, leading to audit firms not building up enough capacity. PSAA have clearly demonstrated that they cannot deliver. The draft legislation proposed to clear the backlog will not resolve the problem and potentially all that will happen is that the workload from disclaimers will cause more delays in the future.
- 3.4 There is little value in an audit firm undertaking significant audit work, charging for it, giving no opinion, and carrying no risk. Stakeholders will need to be reassured that a disclaimer is not a failure on the part of the local body and that nothing can be inferred from it as its financial standing or otherwise. That will be a difficult message to convey.
- 3.5 While we understand the need to clear the backlog, it will be at the expense of providing audit assurance to local bodies and potentially will lead to members of the public having even less understanding and confidence in the financial positions of local bodies
- 3.6 The Essex Pension fund has not yet been audited for 2022/23, and we are informed it is not expected to be completed until 30 September 2024. The draft legislation to deal with the national local audit delays and backlogs, proposes a backstop date of 30 September 2024, at which point disclaimers will be applied to any Statement of Accounts, with audits not complete. Our external auditors have audited our Statement of Accounts for 2022/23 in full, with the exception of the Local Government Pension Scheme (LGPS) valuation, as they do not have the assurance from the Pension Audit, in order to complete our audits
- 3.7 The joint audit committee (JAC) has recommended that the PFCC, Chief Constable and PFCCFRA audits should be completed well before the backstop date and this DR proposes the PFCC and Chief Constable agree modified opinions in respect of the LGPS pension valuations. The external auditor's initial draft of the modified opinion set out the position very clearly and have been shared with the PFCC and the Chief Constable.

4. Background and proposal

- 4.1. The proposal will mean, that in the interests of openness and transparency for all stakeholders, we will publish the signed audited Statement of Accounts and we will be able to limit any further delays.
- 4.2. In the interest of transparency and to provide stakeholders with access to the information in the Statement of Accounts, as early as possible, the PFCC has

published the Statement of Accounts for the year ended 31 March 2023 under decision sheet 019-24.

- 4.3. Since the publication of the 2022/23 under decision sheet 019-24, and following discussion with Grant Thornton, additional wording has been added to Page 89 of the financial statements, to provide additional clarity and transparency for the pension disclosure.

The Authority is required to take notice of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, following the LGPS moving from a net defined benefit liability to a net defined benefit asset position in 2022/23, and need to consider whether there is an asset ceiling that would limit the Authority's ability to recognise this asset. The asset ceiling is measured at the lower of the surplus in the defined benefit plan and the asset ceiling, calculated as an estimate of the present value of the economic benefit which the employer can realise through either; a) refunds or b) through reductions in future contributions. Based on the application of these calculations, the Authority has applied an asset ceiling of £14.6m in 2022/23 (2021/22 £nil), which has reduced the overall pension asset recognised to a liability of £4.7m (2021/22 £30.3m).

- 4.4. Decision sheet 019-24 also outlined that the letter of representation and final audit findings report would be available once the audit is concluded and are included in the Appendix as part of this decision sheet.

5. Alternative options considered and rejected

- 5.1 The alternative is to wait until the audit of the Pension is complete which will potentially result in a disclaimer of our Statement of Accounts.
- 5.2 We do not recommend this option as it is very likely to have a long-term impact on future Statement of Accounts resulting in further delays going forward.

6. Strategic priorities

- 6.1 The Statement of Accounts shows the income and expenditure for the year ended 31 March 2023, which includes the financial resources used to support the required performance to meet the priorities and strategies within the Fire and Rescue Plan.

7. Operational implications

- 7.1 There are no direct operational implications arising from this decision report.

8. Financial implications

- 8.1 As set out in the Statement of Accounts

9. Legal implications

9.1 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting and the Accounts and Audit Regulations 2015.

10. Staffing implications

10.1 There are no direct staffing implications directly arising from this decision report

11. Equality and Diversity implications

The actions being taken will not have a disproportionate impact on individuals with protected characteristics (as defined within the Equality Act 2010), when compared to all other individuals and will not disadvantage people with protected characteristics.

Race	N	Religion or belief	N
Sex	N	Gender reassignment	N
Age	N	Pregnancy & maternity	N
Disability	N	Marriage and Civil Partnership	N
Sexual orientation	N		

The Core Code of Ethics Fire Standard has been fully considered and incorporated into the proposals outlined in this paper.

12. Risks

12.1 The modified audit opinion will have an impact on the audit of future years' Statements of Accounts, however, it will be in a defined area and helps to avoid a full disclaimer of the Statement of Accounts.

12.2 The Audit of the Pension fund could be completed earlier than September 2024, and therefore waiting for this assurance might not have led to a disclaimer of our Statement of Accounts. However, the benefit of the audit closure now is that we can publish the audited Statement of Accounts in the interest of openness and transparency.

12.3 The draft legislation to deal with the national local audit delays and backlogs, may not be taken forward. However, the uncertainty will then continue and the decision to close the audit with a modified opinion will allow certainty and transparency in publishing the audited Statement of Accounts

13. Governance Boards

13.1 The Joint Audit Committee of 28 June 2024

14. Background papers

14.1. [REDACTED]

14.2. The Statement of Accounts for the year ended 31 March 2023 (to be included once the Opinion has been finalised)

14.3. Audit Findings

Decision Process (035-24)

Step 1A - Chief Fire Officer Comments

(The Chief Fire Officer is asked in their capacity as the Head of Paid Service to comment on the proposal.)

.....I support this recommendation



Sign: ...

....

Date: ...3 July 2024...

Step 1B – Consultation with representative bodies

(The Chief Fire Officer is to set out the consultation that has been undertaken with the representative bodies)

.....NA.....

Step 2 - Statutory Officer Review

The report will be reviewed by the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority's ("the Commissioner's") Monitoring Officer and Chief Finance Officer prior to review and sign off by the Commissioner or their Deputy.

Monitoring Officer

Sign: 

Print: ...Darren Horsman - Deputy MO..

Date: ...3/7/2024.....

Chief Finance Officer

Sign: 

Print:Neil Cross.....

Date: .. 3 July 2024 ..

Step 3 - Publication

Is the report for publication? YES

If 'NO', please give reasons for non-publication (Where relevant, cite the security classification of the document(s). State 'none' if applicable)

.....

If the report is not for publication, the Monitoring Officer will decide if and how the public can be informed of the decision.

Step 4 - Redaction

If the report is for publication, is redaction required:


- 1 Of Decision Sheet **NO**
- 2 Of Appendix **NO – PLEASE NOTE**

If 'YES', please provide details of required redaction:

...**Letter of Representation not for publication**

Date redaction carried out:

If redaction is required, the Chief Finance Officer or the Monitoring Officer are to sign off that redaction has been completed.

Sign:  Print:N Cross.....

Date signed:05/07/24.....

Step 5 - Decision by the Police, Fire and Crime Commissioner or Deputy Police, Fire and Crime Commissioner

I agree /do not agree the recommendations to this report:

Sign:  (PFCC / ~~DPFCC~~)

Print: Roger Hirst Date signed: 3rd July 2024

I agree /do not agree the recommendations to this report:

Sign: (PFCC / DPFCC)

Print: Date signed: