

PFCC Decision Report

Report reference number: 108-24

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 Police, Fire and Crime Commissioner Group, and the Police, Fire and Crime Commissioner.

Area of county / stakeholders affected: Countywide

Report by: Janet Perry, Chief Financial Officer & Strategic Head of Performance and Resources

Date of report: 3 July 2024

Enquiries to: As above

1. Executive Summary

- 1.1. The purpose of this report is to seek the PFCC's approval to agree to the closure of the audit of the Statement of Accounts for the year ending 31 March 2023 with a modified opinion for the Police, Fire and Crime Commissioner Group and the Police, Fire and Crime Commissioner (hereafter referred to as the Statement of Accounts).

2. Recommendation

- 2.1. That the PFCC agrees to the closure of the audit of the Statement of Accounts with the following modified opinion from the external auditors

"Independent auditor's report to the Police, Fire and Crime Commissioner for Essex

Report on the audit of the financial statements

We have audited the financial statements of the Police, Fire and Crime Commissioner for Essex (the 'Police, Fire and Crime Commissioner') and its subsidiary the Chief Constable for Essex (the 'group') for the year ended 31 March 2023 which comprise the Comprehensive Income and Expenditure Statement - PFCC, the Comprehensive Income and Expenditure Statement - PFCC Group and PFCC, the Balance Sheet – PFCC Group and PFCC, the Cash Flow Statement for the PFCC Group, the Cash Flow Statement for the PFCC, the Movement in Reserves Statement –

PFCC Group and the Movement in Reserves Statement – PFCC and notes to the financial statements, including a summary of significant accounting policies, and include the Police Officer Pension Fund financial statements comprising the Police Officer Pension Fund Account, the Police Officer Fund Asset Statement and notes to the Police Officer Pension Fund Account. 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, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements:

- ***give a true and fair view of the financial position of the group and of the Police, Fire and Crime Commissioner as at 31 March 2023 and of the group's expenditure and income and the Police, Fire and Crime Commissioner's 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 Police, Fire and Crime Commissioner and Chief Constable for Essex are members of a multi-employer pension scheme and as at 31 March 2023 the group held a share of Essex Pension Fund's assets (£441,659,000) and liabilities (£442,682,000), the net liability of £1,023,000 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 net defined benefit pension plan 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 group'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 Police, Fire and Crime Commissioner 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. The PFCC to sign the letter of representation for the Police, Fire and Crime Commissioner Group and the Police, Fire and Crime Commissioner attached at appendix B.

3. Background to 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 PFCC and the Essex PFCC Group, the Essex Chief Constable, and the Essex PFCCFRA 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 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. Proposal and Associated Benefits

- 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,

5. Options Analysis

- 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 highly likely to have a long-term impact on future Statement of Accounts resulting in further delays going forward.

6. Consultation and Engagement

- 6.1. The PFCC's Chief Financial Officer has worked closely with the Essex Police Corporate Finance team in respect of the audit of the Statement of Accounts.
- 6.2. The Joint Audit Committee has been engaged in the discussions regarding the closure of the audit and the modified opinion.

7. Strategic Links

- 7.1. 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 Police and Crime Plan.

8. Police operational implications

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

9. Financial implications

9.1. As set out in the Statement of Accounts.

10. Legal implications

10.1. 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.

11. Staffing implications

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

12. Equality and Diversity implications

12.1. The modified audit opinion on the Statement of Accounts is not expected to have any inequitable impact on individuals' protected characteristics.

13. Risks and Mitigations

13.1. 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.

13.2. 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.

13.3. 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.

14. Governance Boards

14.1. The Joint Audit Committee of 28 June 2024.

15. Links to Future Plans

15.1. The Statement of Accounts align with the PFCC's Medium-Term Financial Strategy (MTFS) and the overall framework for the ongoing monitoring and scrutiny of financial performance, to ensure resources are available and affordable in relation to the strategic priorities of the PFCC.

16. Background papers

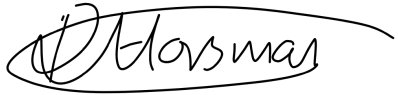
16.1. Appendix A - The Statement of Accounts for the year ended 31 March 2023 (*to be included once the Opinion has been finalised*)


16.2. Appendix B - The Letter of Representation for the Police, Fire and Crime Commissioner Group and the Police, Fire and Crime Commissioner

[NOT PROTECTIVELY MARKED]

Report Approval

The report will be signed off by the PFCC’s Chief Executive and Chief Finance Officer prior to review and sign off by the PFCC / DPFCC.

Chief Executive / M.O. Sign: 
 Print: Darren Horsman - Deputy MO
 Date: 3.7.2024

Chief Financial Officer Sign: 
 Print: Janet Perry
 Date: 3 July 2024

Publication

Is the report for publication? YES X
 NO

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

None

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

Redaction

If the report is for publication, is redaction required:

1. Of Decision Sheet? YES NO X
 2. Of Appendix? YES NO X

If ‘YES,’ please provide details of required redaction:

N/A

Date redaction carried out:

Chief Finance Officer / Chief Executive Sign Off – for Redactions only.

If redaction is required, the Treasurer or Chief Executive is to sign off that redaction has been completed.

Sign:

Print:

Chief Executive / Chief Finance Officer

Decision and Final Sign Off

I agree the recommendations to this report:

Sign:



Print:

Roger Hirst

PFCC/~~Deputy PFCC~~

Date signed:

3 July 2024

I do not agree the recommendations to this report because:

.....
.....
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Sign:

Print:

PFCC/Deputy PFCC

Date signed: