



WALES AUDIT OFFICE
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Auditor General for Wales

Annual Audit Report for 2016-17 - **Police & Crime Commissioner for Dyfed Powys and Chief Constable of Dyfed Powys Police**

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The team who delivered the work comprised John Herniman, Jason Garcia and Leanne Malough.

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Summary report

Introduction

- 1 This report summarises my findings from the audit work I have undertaken in relation to both the Police & Crime Commissioner for Dyfed Powys (the Commissioner) and the Chief Constable of Dyfed Powys (the Chief Constable) during 2017.
- 2 The work I have done allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) and my Code of Audit Practice in respect of the audit of accounts and both corporations' sole arrangements to secure efficiency, effectiveness and economy in their use of resources.
- 3 More detail on the specific aspects of my audit can be found in the separate reports that I have issued during the year. My team has discussed and agreed these reports with officers, the Commissioner and the Chief Constable and presented them to the Joint Audit Committee. My 2017 Audit Plan set out the financial statements audit risks for 2017, and [Appendix 2](#) shows how they were addressed as part of the audit.

I issued unqualified opinions on the 2016-17 financial statements of the Commissioner, Chief Constable and Police Pension Fund

- 4 The financial statements are an essential means by which the Commissioner and the Chief Constable account for their stewardship of the resources at their disposal and their financial performance in the use of those resources. It is their responsibility to:
 - put in place systems of internal control to ensure the lawfulness of transactions and the security of assets;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
- 5 I am required to audit the financial statements and to issue audit reports which include an opinion on whether the financial statements give a 'true and fair' view of the state of affairs of the Commissioner, the Chief Constable and the Police Pension Fund. The reports also give my opinion on whether the financial statements have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 and relevant regulations.
- 6 In 2016-17 we agreed with both the Commissioner and Chief Constable to pilot earlier deadlines for both the accounts preparation and audit delivery. The statutory deadlines remain as 30 June for accounts preparation and 30 September for audit certification, however for 2018-19 onwards these dates will be brought forward to 31 May and 31 July respectively.

- 7 As agreed, we received the draft financial statements for both the Commissioner and the Chief Constable for the year ended 31 March 2017 on 16 June 2017.
- 8 We found the information and working papers provided to support the accounts to be relevant, reliable, comparable, and easy to understand. We concluded that accounting policies and estimates were appropriate and financial statement disclosures unbiased, fair and clear. There were no significant difficulties encountered during the audit. We received information in a timely and helpful manner and were not restricted in our work.
- 9 The Auditor General for Wales issued unqualified audit reports on the Commissioner's and Group financial statements on 25 July 2017 and the Chief Constable's and the Police Pension Fund's financial statements on 27 July 2017.
- 10 Completing the production and audit of the accounts two months ahead of the statutory deadline was a significant achievement by the finance team and we would like to thank them for helping us achieve these tight deadlines.
- 11 For 2017-18, management have committed to produce the draft financial statements by 31 May 2018 and this year's account preparation and audit process has identified several learning points which will help achieve the earlier accounts' submission deadline. We will continue to work with management during this period to help achieve the revised deadlines.
- 12 International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of the audit of the financial statements. My Audit of the Financial Statements Report was presented to the Commissioner and Chief Constable, and to the Joint Audit Committee at its meeting on 25 July 2017. A summary of the findings is set out in [Exhibit 1](#).

Exhibit 1: Audit of Financial Statements Report to the Commissioner and Chief Constable

Reporting requirement	Audit findings
Modifications to the auditor's report.	No modifications required, clear (unqualified) opinions were given.
Unadjusted misstatements.	There was one uncorrected misstatement identified for £114,000 of receipts relating to the disposal of the Police Helicopter were incorrectly included in the 2016-17 financial statements. This was not adjusted because it impacted on all core statements and would have taken significant time to implement.
Views about the qualitative aspects of the entity's accounting practices and financial reporting.	No matters reported.
Matters corresponded upon with management.	No matters corresponded on with management.

Reporting requirement	Audit findings
Matters significant to the oversight of the financial reporting process.	No matters reported.
Material weaknesses in internal controls.	No material weaknesses identified.
Matters specifically required by other auditing standards to be communicated to those charged with governance.	No matters reported.

I am satisfied that the Commissioner and Chief Constable had appropriate arrangements in place in the year to secure economy, efficiency and effectiveness in their use of resources

- 13 The Commissioner and Chief Constable have responsibilities to each establish and then keep under review appropriate arrangements to secure economy, efficiency and effectiveness in their use of resources. My consideration of their arrangements has been based on the audit work undertaken on the accounts. I have also placed reliance on:
- the results of the audit work undertaken on the Commissioner's and the Chief Constable's systems of internal control, as reported in the Annual Governance Statements;
 - the results of previous work carried out by the Auditor General;
 - the results of the work of other external review bodies, eg HMIC, where relevant to my responsibilities; and
 - any other work, including from Internal Audit, that I considered necessary to discharge my responsibilities.
- 14 For the purposes of my work, I evaluated the Commissioner's and the Chief Constable's systems against a number of questions. This approach is set out in detail in [Appendix 1](#). For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.

The Commissioner and Chief Constable have well-established frameworks in place to set, consult on and monitor performance against strategic objectives and priorities

Establishing objectives

- 15 We found that the Commissioner has set out his priorities and objectives clearly within the Police and Crime Plan 2017-21, which was published in March 2017. This Plan is underpinned by the Chief Constable's Delivery Plan.
- 16 The Commissioner has consulted widely on the priorities and objectives included in the Police and Crime Plan 2017-21. The Commissioner and Chief Constable meet regularly with the Leaders and Chief Executives of all Local Authorities within the Force's boundaries, and also engaged with the wider public and other key stakeholders. This indicates a strong level of engagement with partners and the wider public.

Governance and risk management

- 17 The Commissioner's Policing Board and the Chief Constable's Chief Officer Group are responsible for monitoring the operational and financial performance of the Force. The independent Police and Crime Panel (the Panel) receives regular performance and out-turn reports on a wide range of operational issues. The Panel also scrutinises and comments on strategy papers produced by the Commissioner.
- 18 Systems of internal control and governance have been maintained during the year and the annual governance statements for both the Commissioner and Chief Constable met the requirements of the seven core principles of governance included in 'Delivering good governance guidance notes for Policing bodies in England and Wales – 2016 Edition'.
- 19 Risk management arrangements have evolved during 2016-17, and the joint audit committee receive regular reports on the risk register. They have also committed to meeting individual risk owners on a rolling programme basis to challenge specific mitigation processes. Internal Audit have reviewed risk management arrangements this year, and have offered 'substantial assurance' opinions in relation to mitigating control arrangements.
- 20 The Joint Audit Committee formally met four times in 2016-17 to consider the results of the work of Internal Audit and the Wales Audit Office as well as receiving updates on the work of HMIC. The Joint Audit Committee continues to operate effectively, providing appropriate assurances and recommendations to the Commissioner and Chief Constable.
- 21 During 2016-17 the Commissioner's office have introduced a revised approach for reviewing specific areas of Force performance. This approach is entitled 'Pick and Sand' and we have assessed how this process is becoming embedded into the Commissioner's office day-to-day business. Our review has identified that the

process has been introduced effectively and has been well received by both the Force and Commissioner's office. It allows for a consistent methodology for selecting the performance areas to be reviewed, as well as ensuring there is a robust evidenced-based challenge to the Chief Constable.

Collaboration arrangements

- 22 The commissioners and chief constables of the four forces in Wales meet regularly in the All Wales Policing Group to consider issues and co-ordinate responses. This group has developed a standard Memorandum of Understanding for all-Wales collaborative work (setting out monitoring and scrutiny arrangements) which has been adopted by the Commissioner. An all-Wales Deputy Chief Constable is now in place to explore the potential for collaboration with other police forces and public-sector bodies. He is also responsible for overseeing current developments in this area, such as work to counter organised crime and terrorism.
- 23 Collaboration presents opportunities for potential efficiencies or savings, but can also open up unique risks and challenges. It will be important for the Force to establish and maintain effective governance procedures to ensure that benefits of collaboration are maximised, and value for money is secured.

External audit and inspection work

- 24 Our audit work on the Commissioner's and Chief Constable's 2016-17 financial statements and Annual Governance Statements did not identify any significant weaknesses in the systems of control, with only minor improvements recommended to management at the conclusion of our audit.
- 25 Reviews conducted by HMIC support my conclusions about arrangements to secure an efficient and effective police service. Alongside their reviews of specific aspects of the Force's operations, HMIC also conducted an overall review of police effectiveness, efficiency and legitimacy (PEEL). HMIC published its 2016 PEEL assessments of effectiveness, efficiency and legitimacy between November 2016 and March 2017. They also carried out a review of the Force's leadership in December 2016. Further details of the PEEL methodology and the detailed PEEL assessment conclusions relating to Dyfed Powys Police are available on HMIC's website at <http://www.justiceinspectrates.gov.uk/hmic/>.

The Commissioner and Chief Constable met their revenue budgets for 2016-17, and continue to respond positively to significant financial challenges

- 26 The Commissioner and Chief Constable have continued to demonstrate robust control over their revenue budget for 2016-17. The net revenue budget for the year was £93.3 million and a balanced budget was delivered. The Police Fund General Reserve remained at £4.5 million at 31 March 2017 but other reserves decreased

as planned from £28.4 million to £22.7 million. This includes £16.1 million set aside to fund specific capital projects, including the development of a new custody suite in Carmarthenshire.

- 27 The Commissioner and the Chief Constable continue to receive regular reports on expenditure and position against budget. In January 2017, the Commissioner presented a Medium Term plan for the Force for the period 2017/18 to 2022/23. This assumed an annual 1.4% reduction in core grant, a £5 million yearly reduction, as a result of the upcoming Formula Review, a signed-off efficiency plan for the period of £6.0 million and a 5% forward level of precept increase. Taking these assumptions into account the plan showed a balanced budget for this entire period.
- 28 The Force has established a track record of delivering savings requirements over a number of years. As part of our audit, we consider the effectiveness of the controls and processes in place for the Commissioner and his staff to monitor budgets and the overall financial position. Our work did not identify any significant weaknesses in the budgetary controls and processes used by management.

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- 29 I issued a certificate confirming that the audit of the accounts had been completed on 25 July 2017 for the Commissioner and 27 July 2017 for the Chief Constable
- 30 The total cost of the audit is £79,456, which is in line with the amount estimated in our Audit Plan.

Appendix 1

Criteria to assess arrangements for securing economy, efficiency and effectiveness in his use of resources

Exhibit 2: Criteria for assessing arrangements

Corporate performance management and financial management arrangements	Questions on arrangements
Establishing objectives determining policy and decision making	Has the Commissioner/Chief Constable put in place arrangements for setting, reviewing and implementing his strategic and operational objectives?
Meeting the needs of users, stakeholders and the local population	Has the Commissioner/Chief Constable put in place channels of communication with the local population, users of the service, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
Monitoring and reviewing performance	Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to the Commissioner/Chief Constable?
Compliance with established policies	Has the Commissioner/Chief Constable put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
Operational and financial risks	Has the Commissioner/Chief Constable put in place arrangements to manage his significant business risks?
Managing financial and other resources	Has the Commissioner/Chief Constable put in place arrangements to evaluate and improve the value for money he achieves in his use of resources?
	Has the Commissioner/Chief Constable put in place arrangements to ensure that his spending matches his available resources?
	Has the Commissioner/Chief Constable put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Commissioner/Chief Constable?

Corporate performance management and financial management arrangements	Questions on arrangements
Proper standards of conduct etc.	Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutinising performance, to identify potential variances against strategic objectives, standards and targets for taking action?
	Has the Commissioner/Chief Constable put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of his business?

Appendix 2

Financial statement audit risks

My 2017 Audit plan set out the significant financial audit risks for 2016-17. The table below lists these risks and sets out how they were addressed as part of the audit.

Exhibit 3: Financial statement audit risks

Financial statement audit risk	Proposed audit response	Work done and outcome
<p>Management override</p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk in accordance with International Standard on Auditing 240.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business. 	<p>No issues were noted from our review and testing of journal entries, accounting estimates or other significant transactions.</p>
<p>Compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting</p> <p>The financial statements are prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting (the Code).</p> <p>There are a number of significant changes for 2016-17, including a requirement for a new Expenditure and Funding Analysis in addition to a revised expenditure analysis in the Consolidated Income and Expenditure Account (CIES).</p> <p>A restatement of the previous year's (2015/16) CIES is also required.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • continue to work with and support the Commissioner and Chief Constable and their staff to agree the most appropriate presentation in both sets of financial statements and the group statements; • undertake early audit work on proposals to address the new code requirements; • work with all Welsh police bodies as part of a workshop aimed at addressing these new requirements; and • agree improvements to the methodology and working papers supporting the financial statements, where necessary. 	<p>Our audit work identified some required amendments to various disclosures, which have been corrected by the force.</p> <p>We are satisfied that disclosures are now in line with accounting requirements set out in the Code.</p>

Financial statement audit risk	Proposed audit response	Work done and outcome
<p>Revaluation of land and buildings</p> <p>During 2016-17, the land and building assets are being revalued by external valuers. There is a risk that the revaluations are not undertaken in accordance with Code requirement and that adjustments will not be correctly reflected in the draft 2016-17 financial statements.</p>	<p>My audit team will review the revaluation methodology and ensure that the disclosures are fairly stated in the 2016-17 financial statements.</p>	<p>No issues were noted from our detailed testing of the revaluations carried out.</p>
<p>Accounting for jointly controlled operations</p> <p>Work is ongoing to identify jointly-controlled operations which require disclosure under the Code and audit regulations. This work will require co-ordination with other Welsh forces to determine agreed outcomes and consistency across Wales.</p>	<p>My audit team will liaise with management and offer assistance during this work, where required, to ensure that all jointly-controlled operations are identified and reported upon accurately in the financial statements. This will be covered at a workshop for all Welsh police bodies to help ensure consistency.</p>	<p>The Force liaised effectively with other Welsh forces and the financial statements included disclosures in line with accounting requirements.</p>
<p>Earlier closing of year-end accounts</p> <p>From 2018-19 the Commissioner and Chief Constable have to prepare their accounts by 31 May and the audit opinion has to be provided by 31 July. To work towards these revised deadlines, the Finance team have committed to producing their 2016-17 draft financial statements by 16 June 2017.</p>	<p>My audit team will work with management to address the challenge of earlier closure and audit. We will provide a detailed audit deliverables document that will outline our working paper requirements and will structure our audit in such a way that will allow us to meet the revised deadlines.</p>	<p>The Force provided draft accounts on 16 June 2017, and we issued our audit opinions by the end of July 2017.</p> <p>We will continue to liaise with management to ensure that future statutory deadlines will be met.</p>

Financial statement audit risk	Proposed audit response	Work done and outcome
<p>Financial governance arrangements</p> <p>In a period of financial constraint, there are risks that governance arrangements may be weakened, for example, as a result of the departure of key staff from the organisation. It is important, therefore, that the Commissioner and the Chief Constable report in their Annual Governance Statements, how they are mitigating this risk, for example, by ensuring the existence of:</p> <ul style="list-style-type: none"> • robust internal financial controls such as comprehensive standing orders and financial regulations, strong budgetary control and effective Internal Audit; • the operation of recognised standards of financial conduct; • arrangements to ensure that the Commissioner and the Chief Constable only enter into transactions where there is specific legal provision for them to do so; and • well established and understood procedures to prevent and detect fraud and corruption. 	<p>My audit team will undertake a detailed review of the revised arrangements for the production of the Annual Governance Statements.</p> <p>My team will also consider the work of others including Internal Audit and Her Majesty's Inspectorate of Constabulary (HMIC).</p>	<p>No significant issues were noted.</p>

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