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Mr Dafydd Llywelyn and Mr Mark Collins  
Police and Crime Commissioner and Chief Constable  
Office for the Police and Crime Commissioner  
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Dear Dafydd and Mark

## Annual Audit Letter – Police and Crime Commissioner (PCC) and Chief Constable (CC) 2017-18

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

### The PCC and CC complied with their responsibilities relating to financial reporting and use of resources

The PCC and CC are responsible for:

- putting systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure the security of assets;
- maintaining proper accounting records;
- preparation of Statements of Accounts in accordance with relevant requirements; and
- the establishment and review of appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Body's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

**I issued unqualified audit opinions on the statements of accounts of both PCC and CC on 30 July 2018**

Police bodies in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Body Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 30 July 2018 I issued unqualified audit opinions on the accounting statements for both the PCC and the CC, confirming that they present a true and fair view of each body's financial position and transactions. My report is contained within the Statement of Accounts.

The key matters arising from the accounts audit were reported to members of the Joint Audit Committee in my Audit of Financial Statements report on the 24 July 2018.

In 2016-17 we agreed with both the PCC and CC to pilot earlier deadlines for both the accounts preparation and audit delivery in 2016-17. For 2017-18 these deadlines (31 May for production of the draft financial statements and 31 July for audit of the financial statement) became the formal pilot year for early closure. For 2018/19 onwards, these dates will be the statutory dates. Completing the production and audit of the accounts within these dates in 2017-18 is a significant achievement by the finance team. This year's account preparation and audit process has identified several learning points which we reported in our Audit of Financial Statements Report and which will help achieve the accounts' submission deadlines going forward. We will continue to work with management during this period to help achieve these.

**I am satisfied that both the PCC and CC have appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

My consideration of the arrangements to secure economy, efficiency and effectiveness has been based on:

- the audit work undertaken on the statement of accounts;
- the results of the audit work undertaken on the PCC's and the CC's systems of internal control, as reported in the Annual Governance Statements;
- an evaluation of the PCC and CC's systems based on a self-assessment completed by officers;
- 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.

For the purposes of my work, I evaluated the PCC's and the CC's systems against a number of questions. This approach is set out in detail in **Appendix 1** to this letter. For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.

## Police bodies across Wales face significant financial challenges

Austerity funding remains the most significant challenge facing all police bodies in Wales and financial pressures are likely to continue for the medium term. The financial settlement that was published in December 2017 indicated that a broadly flat-cash government settlement was to be expected for 2018-19 and 2019-20.

In 2017-18 the PCC and CC set and operated within its revenue budget of £96.6 million after utilising £3.5 million from reserves (against a budgeted transfer of approximately £2 million). As at 31 March 2018, the PCC and CC had closing Useable Reserves of £20.5 million (a decrease of £6.8 million), £1.2million of which are reserves held on behalf of third parties.

For 2018-19, the PCC and CC have set a budget of £99.1 million. This assumes a flat-cash government settlement, required savings of £1.9 million and a 5% Precept. At 30 September 2018, an overspend of £0.5 million has been reported against the budget. At that stage, a balanced budget is still projected at year-end.

These outcomes are in the context of significant changes in the Force's financial position over several years. To respond to these pressures, the PCC and CC have had to make tough decisions about where to devote scarce resource and consider new ways to deliver services. In its medium term financial plan, the PCC and CC have identified that £5 million of savings are required between 2019-20 and 2023-24.

In addition, Useable Reserves have fallen from £45.5 million in 2014-15 to £20.5 million in 2017-18 and in the medium term financial plan, these are predicted to fall to £5.3 million by 2020/21. Careful consideration of reserves balances and how they might be used to support financial plans is particularly important as it is not sustainable to rely on reserves to support ongoing costs. Once reserves have been deleted, other sources of funds or efficiencies must be identified.

## I issued certificates confirming that the audit of the accounts for the PCC and the CC have been completed on 30 July 2018

I received no electors' questions or objections in relation to the 2017-18 audit. Having given an audit opinion on the financial statements and concluded on the arrangements to secure economy, efficiency and effectiveness in its use of resources, I was able to certify that the audit of both the PCC and the CC was complete when I issued my audit opinion.

The financial audit fee for 2017-18 is currently expected to be broadly in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely



**Richard Harries**  
**For and on behalf of the Auditor General for Wales**

cc **Edwin Harries, Director of Finance**  
**Beverley Peatling, Chief Finance Officer**

## Appendix 1

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

Exhibit 1: Criteria for assessing arrangements

Corporate performance management and financial management arrangements	Questions on arrangements
<b>Establishing objectives determining policy and decision making</b>	Has the Commissioner/Chief Constable put in place arrangements for setting, reviewing and implementing his strategic and operational objectives?
<b>Meeting the needs of users, stakeholders and the local population</b>	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?
<b>Monitoring and reviewing performance</b>	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?
<b>Compliance with established policies</b>	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?
<b>Operational and financial risks</b>	Has the Commissioner/Chief Constable put in place arrangements to manage his significant business risks?
<b>Managing financial and other resources</b>	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
<p><b>Proper standards of conduct etc.</b></p>	<p>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?</p>
	<p>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?</p>