



WALES **AUDIT** OFFICE

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Annual Audit Report 2011

North Wales Police Authority

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Status of report

The team who delivered the work comprised Anthony Barrett, Lucy Evans, Michelle Phoenix, Kelly Lovitt and Bernard Lucas.

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Summary report

1. This Annual Audit Report (the Report) to members of the North Wales Police Authority (the Authority) summarises the conclusions from my 2010-11 audit. It reports for Authority members the significant issues arising from my audit, together with my comments on other current issues.
2. More detail on the specific aspects of my audit can be found in the *Audit of Financial Statements Report* issued to the Audit Committee in September 2011.
3. A number of references are made within this Report to guidance and documentation issued by the Auditor General, including the Code of Audit Practice (the Code). This refers to the Statement of Responsibilities of Auditors and of Audited Bodies summarising the key responsibilities of auditors. My audit has been conducted in accordance with the principles set out in that Statement. What I say about the results of my audit should be viewed in the context of that more formal background.
4. I adopt a risk-based approach to planning the audit, and my audit work has focused on your significant financial and operational risks that are relevant to my audit responsibilities. The audit work is structured around the key elements of my responsibilities as set out in the Code. The *Audit Outline 2011* set out the proposed audit fee of £83,482 (plus VAT), and the final fee will be in line with the proposed fee.
5. I have concluded that the Authority's resources were, in all material respects, properly used and accounted for in 2010-11:
 - the Authority's 2010-11 accounts were properly prepared and materially accurate, but there is scope to improve the accounts preparation process and work continues to ensure the consistent treatment across Wales of Police Authorities of Wales transactions and balances;
 - the Authority met its revenue budget for 2010-11, and is responding to the significant financial challenges ahead;
 - the Authority had an effective internal control environment in place to reduce the risk of material misstatement to the financial statements; and
 - the Authority's significant financial systems were appropriately controlled and operated as intended.
6. The Authority has appropriate corporate arrangements in place to support effective use of resources:
 - the Authority had proper arrangements in 2010-11 to help it achieve economy, efficiency and effectiveness in its use of resources; and
 - work by Her Majesty's Inspectorate of Constabulary (HMIC) on the Authority's response to financial pressures supports my conclusion about the arrangements to secure efficient, economical and effective services.
7. This Report has been agreed with the Chief Executive, Treasurer and the Director of Finance and Resources and other relevant officers. The Report will be presented to the Audit Committee on 24 February 2012 and a copy provided to every member of the Authority.

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8. I aim to deliver a high standard of audit which makes a positive and practical contribution and supports the Authority's own agenda. I recognise the value of your co-operation and support in achieving this aim, and would like to express my appreciation for the assistance and co-operation provided during the course of the audit.

Anthony Barrett
Appointed Auditor

Date: February 2012

Detailed report

The Authority's resources were, in all material respects, properly used and accounted for

9. The financial statements are an essential means by which the Authority accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.
10. As the Authority's external auditor, I am required to audit the financial statements and to issue an auditor's report which includes an opinion on whether the financial statements presented a true and fair view of the financial position of the Authority at the year-end.

The Authority's 2010-11 accounts were properly prepared and materially accurate, but there is scope to improve the accounts preparation process and work continues to ensure the consistent treatment across Wales of Police Authorities of Wales transactions and balances

11. The Authority prepared its draft financial statements by 30 June and published its final financial statements by 30 September 2011, in accordance with the requirements of the Accounts and Audit Regulation (Wales) 2010.
12. 2010-11 was the first financial year that police authorities had to produce financial statements under International Financial Reporting Standards (IFRS). This transition was particularly challenging for the Authority given other changes that were taking place (ie, the restructuring and relocation of the finance departmental and key changes in senior finance personnel).
13. I am required by International Standards on Auditing (ISA) 260 to report issues arising from my work to 'those charged with governance' (the Authority) before I issue my audit opinion on the accounts.
14. I reported these issues to the Authority on 29 September 2011. The key issues are set out in Exhibit 1.

Exhibit 1: Issues identified in the Audit of Financial Statements Report

Reporting requirement	Auditors' response
Views about the qualitative aspects of the entity's accounting practices and financial reporting.	We appreciate that this has been a challenging year for the Authority given the introduction of IFRS alongside the restructuring and relocation of the finance department and key changes in senior finance personnel. As demonstrated by the number and nature of amendments (set out in Appendix 3) there is scope to improve the quality assurance arrangements in the accounts preparation process. This will help to ensure that draft accounts presented for Authority approval and external audit in future are as complete, compliant and accurate as possible.
Expected modifications to the auditor's report.	No modifications were required to the auditor's report.
Unadjusted misstatements.	There were no uncorrected misstatements. Although a number of material misstatements were identified as part of the audit, management agreed to amend these in all cases. A schedule of the significant amendments was presented to the Authority prior to the approval of the accounts. This schedule is included in Appendix 3.
Material weaknesses in the accounting and internal control systems identified during the audit.	No matters arose.
Matters specifically required by other auditing standards to be communicated to those charged with governance.	No matters arose.
Any other relevant matters relating to the audit.	There has been initial agreement on the accounting treatment of Police Authorities of Wales transactions, but this is not final and was not reflected in the 2010-11 financial statements. This issue should be addressed for 2011-12.

15. On 29 September 2011, I issued my opinion on the Authority's accounts. I concluded that the accounts give a true and fair view of the financial position of the Authority as at 31 March 2011 and of its income and expenditure for the year then ended.
16. We completed the audit of the Whole of Government Accounts return in October 2011. There were no matters of significance to report.

The Authority met its revenue budget for 2010-11, and is responding to the significant financial challenges ahead

17. The Authority has a good track record of operating within its revenue budget and this continued in 2010-11. Against a revenue budget requirement for the year of £163.3 million, the Authority recorded an underspend of £4.7 million which it transferred primarily to earmarked reserves to fund future changes in services and estates. There was a £0.068 net increase on the General Reserve to £6.8 million.
18. The Authority continues to receive regular reports from the Treasurer and Director of Finance and Resources on expenditure and the position against budget. The report for the period ending 31 December 2011 showed that the year-end position forecast savings of £4.7 million and was in line with expectations. This helps strengthen the position of the Authority to meet financial and future operational and non-operational challenges.

The Authority had an effective internal control environment in place to reduce the risk of material misstatement to the financial statements

19. Internal Audit concluded in their annual report that:
 - ‘North Wales Police Authority can have assurance in the overall adequacy and effectiveness of its internal control environment, including its arrangements for governance and risk management.’
20. In particular, I found that:
 - the arrangements to maintain the systems of internal control were effective;
 - as in previous years, Internal Audit has met the required professional standards and our planned reliance on its work has therefore been possible;
 - the arrangements for ensuring that the Authority only entered into transactions where there is specific provision for it to do so had continued to operate effectively; and
 - the governance framework of the Authority was operating effectively together with the arrangements for preventing and detecting fraud and corruption.
21. I will continue to monitor the financial position of the Authority in 2011-12.

The Authority’s significant financial systems were appropriately controlled and operated as intended

22. My review of the Authority’s financial systems involved evaluating the significant financial systems of control and, where necessary, either undertaking testing of the operation of internal controls or relying on internal audit work for assurances that controls are effective. I concluded that for the purposes of my audit opinion the

Authority's significant financial systems were appropriately controlled and operated as intended.

23. Internal Audit has made recommendations for some improvements in financial systems and controls, and these have been reported to the Audit Committee which continues to monitor their implementation by management. I will also continue to monitor the implementation of internal audit's recommendations.
24. There are no further matters that I need to bring to the attention of members.

The Authority has appropriate corporate arrangements in place to support effective use of resources

The Authority had proper arrangements in 2010-11 to help it achieve economy, efficiency and effectiveness in its use of resources

25. In examining the Authority's accounts each year, I am required under section 17(2)(d) of the Public Audit (Wales) Act 2004 to satisfy myself that it has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This requirement is also reflected in the Code. My formal conclusion on the Authority's Value for Money (VFM) arrangements for 2010-11 is set out in Appendix 1.
26. In addition to the audit of the annual accounts, other important sources of assurance have come from performance and inspection work undertaken by HMIC and Internal Audit.
27. The Accountable Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources. For the purposes of my work, I have evaluated the Authority's systems against a number of questions. This approach is set out in detail in Appendix 2. For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.
28. There were no significant matters arising from my work in this area for 2010-11 that I wish to draw to your attention.

Work by Her Majesty's Inspectorate of Constabulary on the Authority's response to financial pressures supports my conclusion about the arrangements to secure efficient, economical and effective services

29. The HMIC conducted fieldwork for its review, *Valuing the Police: Preparedness Inspection*, in February 2012 and we accompanied HMIC to a number of the information gathering meetings at that time. The HMIC published its local report on the position at the Authority, and a national thematic report of the position at all police authorities across England and Wales in July 2012.
30. The HMIC's local report found that:
- The Force and the Authority clearly understood the scale of the challenge facing them, and have considered a range of options in developing a plan to address it.
 - The Force and Authority have detailed plans in place for delivering savings during 2011-12 and 2012-13, and have budgeted to realise all the required savings. The plan also included a financial cushion, designed to absorb any unexpected costs or any slippage in implementation.
 - There were clear and justified timescales and milestones, supported by good analysis.
 - Clear governance structures were in place to oversee progress.
 - The force and authority have identified the changes in the plan that might have an impact on the service they provide to their community, and have worked to ensure that this is minimised.
 - The force and authority have made communication with the public and key stakeholders an integral part of the change programme. Local public consultation has taken place and there is evidence that this has helped shape the content of the plan.
 - The Home Secretary has stated that she expects forces and authorities to make financial cuts while still reducing crime and without damaging the front line. North Wales' *Policing Plan* includes objectives to reduce crime and anti-social behaviour in the coming year.
31. The HMIC's work supports my conclusions on the Authority's arrangements for securing efficient, economical and effective services. In particular, it confirms that the Authority and Force are well placed to live within their means as the resources they have available to deploy are reducing over the next four years. I will continue to work with HMIC, and other inspectors and regulators, to identify potential joint working opportunities for performance audit work in 2011-12.
32. As part of our joint working arrangements, we are currently undertaking a review with HMIC to update the progress in delivering the plans to meet the financial challenge for the remaining years of the Comprehensive Spending Review (CSR) period. The review will follow on from our joint report *Sustaining Value for Money in the Police*

Service and the first round of HMIC's Valuing the Police (VtP) Inspections and publication of the recent *Adapting to Austerity* thematic report.

- 33.** The benefit of a co-ordinated approach between the Wales Audit Office and HMIC is to ensure the programmes of work avoid duplication and promote sharing between our respective organisations to guide our programmes of work and to help ensure that intelligence is actively and promptly shared and ensure that key risks and concerns are being examined.
- 34.** We have recently been jointly involved in HMIC's support and challenge meetings and follow-up work which forms part of the review process. As part of this arrangement, we will produce a feedback report to each authority and a national briefing paper for the Auditor General.

Appendix 1

Conclusion on North Wales Police Authority's arrangements for the year ended 31 March 2011 for securing economy, efficiency and effectiveness in its use of resources

Accountable Officer's responsibilities

The Accountable Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources, and to ensure proper stewardship and governance. The Accountable Officer is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I have a responsibility under Section 17(2) of the Public Audit Wales Act 2004 to conclude from my audit of the Authority's annual accounts whether I am satisfied as to the existence of the arrangements that it had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. For the purposes of my work in this area, I have assessed 'proper arrangements' as principally comprising an organisation's corporate performance management and financial management arrangements, significant elements of which are defined in Paragraph 48 of the Code.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered as part of this aspect of my work, the effectiveness of the arrangements in place in securing value for money during the year under review.

Conclusion

The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2010-11 accounts to establish, in all significant respects, what arrangements the Authority had in place during the year to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.

In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered, the effectiveness of the arrangements in place in securing value for money during the year under review.

Based on the Authority's Annual Governance Statement and as a result of the work carried out, as described above as part of my audit of the 2010-11 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. Based on, and limited to, the work carried out I have raised various issues with, and made recommendations to, improve the Authority's arrangements. These matters are further discussed and explained in my Annual Audit Letter to the Authority.

Anthony Barrett
Appointed Auditor
January 2012

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Appendix 2

Criteria for assessing the Authority's arrangements during 2010-11 for securing economy, efficiency and effectiveness in its use of resources

Corporate performance management and financial management arrangements	Questions on arrangements
Establishing objectives, determining policy and decision making	Has the Authority put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
Meeting the needs of users, stakeholders and the local population	Has the Authority 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 Authority 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 Authority?
Compliance with established policies	Has the Authority 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 Authority put in place arrangements to manage its significant business risks?
Managing financial and other resources	Has the Authority put in place arrangements to evaluate and improve the value for money it achieves in its use of resources?
	Has the Authority put in place arrangements to ensure that its spending matches its available resources?
	Has the Authority 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 Authority?

Corporate performance management and financial management arrangements

Questions on arrangements

Proper standards of conduct, etc

Has the Authority put in place arrangements for monitoring and scrutinising performance, to identify potential variances against strategic objectives, standards and targets for taking action and, where necessary, reporting to members?

Has the Authority put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business?

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Appendix 3

Summary of corrections made to the draft 2010-11 financial statements which were drawn to the attention of North Wales Police Authority

During our audit we identified the following misstatements that were corrected by management, but which we considered should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
Various material entries	The Movement in Reserves Statement has been fundamentally reworked and a number of entries significantly amended.	Various balances and disclosures in this primary statement did not comply with the requirements of IFRS. As a result this statement did not balance to the other primary statements, including the Comprehensive Income and Expenditure Account and Balance Sheet by £711,000.
Various significant entries	The Cash Flow Statement has been fundamentally reworked and a number of entries for both 2010-11 and 2009-10 significantly amended.	Various disclosures in this primary statement did not comply with the requirements of IFRS and in some instances cash flow balances were not fully supported by detailed notes.
£1,800,618	Non Current Assets – Note 12: <ul style="list-style-type: none">• property, plant and equipment cost reduced by £1,800,618;• accumulated depreciation reduced by £1,696,830; and• gain on disposal of long-term assets increased by £104,787.	The Authority had not accounted for the disposal of a fleet of vehicles during the year.
£1,953,925	Short Term Creditors – 2008-09 restated Balance Sheet: <ul style="list-style-type: none">• The restated 2008-09 accumulated absences provision was increased by £1,954,925.	The original accumulated absences provision for 2008-09, calculated by external consultants, did not include National Insurance, Superannuation or consider cancelled rest days or bank-holiday time off in lieu.

Value of correction	Nature of correction	Reason for correction
£335,659	The cash balance on the face of the Balance Sheet was increased and the lump sum payments in the pension account decreased by £335,659.	The original cash balance was understated due to the inclusion of a cheque for a lump sum pension payment that had been lost and should have been cancelled.
£1,135,000	Comprehensive Income and Expenditure Account – the charge for government grant amortisation was removed.	The original accounting treatment did not comply with IFRS and the brought-forward balances were therefore incorrectly stated.
£2,379,000	Comprehensive Income and Expenditure Account – Government grants received in 2009-10 were charged.	The original accounting treatment did not comply with IFRS and the brought-forward balances were therefore incorrectly stated.
£15,376,000	Financial Instruments – Note 40 was amended to include the finance lease liability, the PFI liability and interest on the finance lease.	The original note did not comply with IFRS by excluding the finance lease liability, the PFI liability and interest on the finance lease.
Various significant entries	The Adjustment between accounting basis and funding basis under Regulations (Note 7) has been fundamentally reworked and a number of entries have been significantly amended.	The original note was incomplete and a number of disclosures and balances did not comply with IFRS.
£257,000	Capital Expenditure and Capital Financing – Note 31. The Capital Financing Requirement has been reduced by £257,000.	The original note did not reconcile to the supporting working papers.
Various	Amounts Reported for Resource Allocation Decision – Note 25. Disclosure was added to reconcile the outturn reported to the Authority at month 12 with the result reported within the Comprehensive Income and Expenditure Account.	The original note reconciled different values and did not comply with the IFRS.
Various	There were over 50 other narrative and disclosure amendments and additions made throughout the accounts.	In order to comply with IFRS and to ensure completeness, clarity, accuracy and consistency throughout the financial statements.

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WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: info@wao.gov.uk

E-bost: info@wao.gov.uk

Website: www.wao.gov.uk

Gwefan: www.wao.gov.uk