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Annual Audit Letter 2009-10

Police Authorities of Wales

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Summary

1. This Annual Audit Letter (the Letter) to members of the Police Authorities of Wales (the Committee) summarises the conclusions from my 2009-10 audit. It reports for Committee members the significant issues arising from my audit, together with my comments on other current issues. The work reported upon in the Letter was set out in the agreed 2009-10 Audit Strategy. This Letter has been compiled by John Herniman on behalf of the appointed auditor.
2. A number of references are made within this Letter 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.
3. 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.
4. From my financial audit work I have concluded that the Committee's resources were, in all material respects, properly used and accounted for, but the issues outlined in this report need to be addressed in the current year:
 - the Committee's 2009-10 accounts were properly prepared and materially accurate, however issues relating to what activities are accounted for by PAW and the constituent bodies need to be resolved; and
 - the Committee's revised internal control environment has yet to be tested to ensure it is fit for purpose.
5. The Committee has appropriate corporate arrangements in place to support effective use of resources however performance monitoring arrangements require further development:
 - the Committee had proper arrangements in 2009-10 to help it achieve economy, efficiency and effectiveness in its use of resources; and
 - the Committee's performance monitoring arrangements require further development.
6. This Letter has been agreed with senior officers. The Letter will be presented to the Audit Subcommittee on 23 November 2010 and a copy provided to every member of the Committee.

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7. I aim to deliver a high standard of audit which makes a positive and practical contribution and supports the Committee'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.

John Herniman
For and on behalf of the appointed auditor

Date: November 2010

The Committee’s resources were, in all material respects, properly used and accounted for, but the issues outlined in this report need to be addressed in the current year

- 8. The financial statements are an essential means by which the Committee accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.
- 9. As the Committee’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 present fairly the financial position of the Committee at the year-end.

The Committee’s 2009-10 accounts were properly prepared and materially accurate, however, issues relating to what activities are accounted for by Police Authorities of Wales and the constituent bodies need to be resolved

- 10. The Committee produced its draft financial statements by 30 June 2010 and approved them before 30 September 2010, in accordance with the requirements of the Accounts and Audit Regulation (Wales) 2010.
- 11. I am required by International Standard on Auditing (ISA) 260 to report issues arising from my work to ‘those charged with governance’ (the Audit Subcommittee) before I issue my audit opinion on the accounts.
- 12. These issues were reported to the Audit Subcommittee on 28 September 2010. The key issues are set out in Exhibit 1.

Exhibit 1: ISA 260 reporting requirements

Reporting requirement	Auditor’s response
Views about the qualitative aspects of the entity’s accounting practices and financial reporting	The qualitative aspects of the Committee’s accounting practices are of an acceptable standard but there are a number of issues that need to be addressed by PAW and the constituent authorities prior to the completion of the 2010-11 financial statements. These are important to ensure that all PAW income and expenditure are captured in its accounts; that constituent authorities account for their share of PAW transactions and balances appropriately; and that improvements are made to the PAW internal controls.
Expected modifications to the auditor’s report	No modifications to the auditor’s report.
Unadjusted misstatements	There were no uncorrected misstatements.

Reporting requirement	Auditor's response
Material weaknesses in the accounting and internal control systems identified during the audit	As in previous years, we have not been able to place reliance on the internal controls relating to how income and expenditure are confirmed as being eligible for inclusion in the PAW accounts and additional audit work was carried out to gain the assurance needed.
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	No matters arose

13. On 30 September 2010 I issued my opinion on the Committee's accounts. I concluded that the accounts give a true and fair view of the financial position of the Committee as at 31 March 2010 and of its income and expenditure, gains and losses and cash flows for the year then ended.
14. New requirements for financial reporting will shortly be required under the International Financial Reporting Standards. We are continuing to work with the Committee to prepare for these changes and other adjustments required under these standards.

The Committee's constitution does not set out in exact terms what activities should be accounted for by Police Authorities of Wales

15. In providing our opinion on the financial statements, we have to be satisfied that the accounts include all income and expenditure relating to PAW activities. The driver for deciding what activities are included in the financial statements is PAW's own constitution. The current constitution states that activities included in the National Policing Plan for Wales will be accounted for by PAW.
16. During 2009-10, there has been some confusion within constituent authorities as to whether certain activities should be included in the PAW accounts. For example, the Special Branch element of the WECTU project is not included despite falling under the operational responsibility of the Deputy Chief Constable for PAW. Other elements of the WECTU project, such as CTIU, are included in the accounts. The constitution is not specific enough to allow us to conclude that these activities should actually be included in the PAW financial statements.
17. However, to rectify the issue and to provide a basis for the future accounting requirements for PAW, there should be a more detailed constitution agreed which specifically identifies what activities are to be included in PAW which can then be used to support the compilation of the financial statements.
18. In compiling the revised constitution, the following questions need to be considered:
- How is future grant funding received by PAW?
 - Should PAW have its own bank account?
 - What specific activities fall under the remit of PAW and therefore should be included in PAW's financial statements?

- Should PAW hold reserves in its own right?
 - Should direct costs such as the use of premises, chief officer time etc be apportioned to PAW?
 - What relative shares of income, expenditure, assets and liabilities should be accounted for in each constituent authority?
19. It is for the PAW members in agreement with all constituent authorities to come to decisions in relation to the questions raised in paragraph 18 and make appropriate amendments to the constitution.

Constituent bodies have not yet agreed how Police Authorities of Wales transactions should be accounted for in their own financial statements

20. Each constituent force needs to account for its share of PAW assets, liabilities, income and expenditure within its own financial statements.
21. The financial statements of the constituent forces currently reflect their own contributions to PAW activities. The financial statements of constituent forces should also reflect the relevant proportion of PAW income and expenditure relating to the specific grant-funded projects co-ordinated by PAW. Despite a meeting between the Wales Audit Office and accountants from the four forces in May 2010, we have not been able to reach agreement as to how income and expenditure relating to the specific projects are accounted for in the constituent forces' accounts.
22. At present, the lead force for a specific project accounts for all income and expenditure for that project in its financial statements with no share of the income and expenditure being included in the other three force's accounts. It is necessary to include a share of income and expenditure within the constituent bodies' accounts linked to the relative benefit the force receives from the project to comply with proper accounting practices.
23. All assets and liabilities included in PAW's accounts should also be apportioned between the financial statements of the constituent bodies. As such, the £575,000 of vehicles should be split between the accounts of the four Welsh police authorities using an appropriate basis. This was not carried out in 2009-10.
24. However, it has not been possible, to date, to quantify the level of over or understatement within each authority's accounts. However, we are satisfied that the differences are not of a material nature and will not impact on the opinions we provide on the financial statements of the four police authorities in Wales.
25. We have reported these issues individually to all police authorities in Wales and there needs to be an agreed approach between all four forces to correct the treatment for next year's accounts.

The Committee's revised internal control environment has yet to be tested to ensure it is fit for purpose

26. We assess whether the Committee has put in place adequate arrangements to monitor, control and report on its financial standing as well as developing a robust internal control environment. Our audit was based on the review of the following areas:
- significant financial systems;
 - setting a balanced budget; and
 - financial monitoring and reporting.
27. Our review of the Committee's financial systems involved documenting the significant financial systems, and, where necessary, either undertaking testing of the operation of internal controls or carrying out substantive audit testing at the year-end. The Committee used Dyfed Powys Police Authority's finance staff and systems for the production of their 2009-10 financial statements.
28. As in previous years, we have not been able to place reliance on the internal controls relating to how income and expenditure are confirmed as being eligible for inclusion in the PAW accounts. As such, we have undertaken additional testing at the year-end to gain the assurance needed. This process identified some weaknesses in relation to some of the supporting documentation provided, and this will be discussed and reported to officers separately.
29. For 2010-11, the responsibility for producing the financial statements has passed to finance staff at South Wales Police Authority. This will result in a number of changes to the internal control environment. We are aware that an internal review has been carried out by accountants from Dyfed Powys Police Authority and South Wales Police Authority to look at the level of supporting documentation being provided for income and expenditure being submitted to the PAW accounts by constituent authorities. The findings of this review are still to be reported but it is important that any issues are considered and resolved in setting up the new system of control at South Wales Police Authority.
30. The Committee has now, in conjunction with the three South Wales forces, appointed Deloitte as internal auditors, and a plan setting out the internal audit coverage for 2010-11 has recently been agreed. Internal audit will be a key function in reviewing the revised internal control arrangements and will provide a level of assurance for the Committee when it needs to approve its governance statements in future years.
31. My auditors also examined budgetary reports and procedures and I am satisfied that suitable arrangements are in place. The Committee has received regular reports on expenditure and position against budget.
32. The recent Comprehensive Spending Review has placed significant challenges on all Welsh police authorities in relation to how they manage their financial position over the short and medium term. As a result the Committee will also come under significant pressure to achieve efficiencies in the operational activities they undertake. I will continue to monitor the financial position of the Committee in 2010-11.

The Committee has appropriate corporate arrangements in place to support effective use of resources, however, performance monitoring arrangements require further development

The Committee had proper arrangements in 2009-10 to help it achieve economy, efficiency and effectiveness in its use of resources

33. In examining the Committee'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 Committee's value-for-money arrangements for 2009-10 is set out in Appendix 1.
34. The accountable officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Committee's use of resources. For the purposes of my work, I have evaluated the Committee's arrangements against a number of questions. This approach is set out in Appendix 2. For each question, I consider whether there are any gaps in the arrangements expected to be in place, and the significance of these gaps.
35. In reaching my opinion on the Committee's arrangements I have also relied upon the work my staff have carried out at each individual police authority. All four police authorities in Wales have been awarded unqualified opinions on their arrangements for securing economy, efficiency and effectiveness in the use of their resources.
36. Whilst there are some internal control and corporate governance weaknesses specific to the Committee as outlined in paragraphs 26 to 32, I have concluded that in 2009-10 the Committee had sufficiently robust arrangements in place to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.

The Committee's performance monitoring arrangements require further development

37. We are aware that the Deputy Chief Constable for PAW has been given the responsibility of undertaking a detailed review of the future operations of PAW. This will consider the current challenges facing the police service nationally as well as the potential changes to the future governance arrangements of police authorities. Both the constitution of PAW and the national policing plan for Wales will be revised following the completion of this review and these changes will need the agreement of the four constituent authorities.

- 38.** In order to support the revised constitution and national policing plan for Wales, the Committee will need to enhance the current performance management arrangements. This will include the need for detailed performance measures and targets which are reported against on a regular basis to demonstrate progress against the objectives within these documents.

Appendix 1

Conclusion on Police Authorities of Wales' arrangements for the year ended 31 March 2010 for securing economy, efficiency and effectiveness in its use of resources

Accountable officer's responsibilities	
<p>The accountable officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Committee'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.</p>	
Auditor's responsibilities	
<p>I have a responsibility under Section 17(2) of the Public Audit Wales Act 2004 to conclude from my audit of the Committee'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.</p> <p>I report if significant matters have come to my attention which prevent me from concluding that the Committee 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.</p>	
Conclusion	
<p>The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2008-09 accounts to establish, in all significant respects, what arrangements the Committee had in place during the year to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.</p> <p>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.</p> <p>Based on the Committee's Annual Governance Statement and as a result of the work carried out, as described above as part of my audit of the 2009-10 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Committee 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 Committee's arrangements. These matters are further discussed and explained in my Annual Audit Letter to the Committee.</p>	
<p>Anthony Barrett Appointed Auditor November 2010</p>	<p>Wales Audit Office 24 Cathedral Road Cardiff CF11 9LJ</p>

Appendix 2

Criteria for assessing the Committee's arrangements during 2009-10 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 Committee 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 Committee 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 Committee 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 Committee?
Compliance with established policies	Has the Committee 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 Committee put in place arrangements to manage its significant business risks?
Managing financial and other resources	Has the Committee put in place arrangements to evaluate and improve the value for money it achieves in its use of resources?
	Has the Committee put in place arrangements to ensure that its spending matches its available resources?
	Has the Committee 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 Committee?
Proper standards of conduct etc	Has the Committee 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 Committee put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business?

Appendix 3

Audit fee

The Audit Strategy for 2009-10 set out the proposed audit fee of £19,257 (plus VAT). The table below sets out my latest estimate of the actual fee for 2009-10.

Analysis of proposed and actual audit fee 2009-10

Code area	Planned fee 2009-10 (£)	Actual fee 2009-10 (£)
Total	19,257	19,257



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