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Author: John Herniman

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Annual Audit Letter 2009-10

**Gwent Police Authority**

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## Summary

1. This Annual Audit Letter (the Letter) to members of the Gwent Police Authority (the Authority) summarises the conclusions from my 2009-10 audit. It reports for Authority members the significant issues arising from my audit, together with my comments on other current issues. The work reported upon in this Letter was set out in the agreed 2009-10 Outline Strategy. This letter has been sent by John Herniman on behalf of the Appointed Auditor.
2. More detail on the specific aspects of my audit can be found in the separate reports that have been issued during the year. These reports are discussed and agreed with officers and presented to the Audit and Resources Committee. The reports issued are shown in Appendix 3.
3. The Audit Strategy for 2009-10 set out the proposed audit fee of £74,275 (plus VAT). My latest estimate of the actual fee for the financial and performance audits 2009-10, on the basis that some performance work remains in progress, is that it is in line with the proposed fee. We completed our work on the review of the International Financial Reporting Standard (IFRS) accounting of the Ystrad Mynach Police Station Private Finance Initiative (PFI) scheme in less time than originally planned, and a credit note for £1,500 of the proposed fee of £3,570 has been sent to the Authority.
4. 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.
5. 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.
6. From my financial audit work I have concluded that the Authority's resources were, in all material respects, properly used and accounted for in 2009-10:
  - the Authority's 2009-10 accounts were properly prepared and materially accurate, and work continues to ensure the consistent treatment across Wales of Police Authorities of Wales transactions in the 2010-11 accounts;
  - the Authority met its revenue budget for 2009-10, and understands it has significant financial challenges ahead;
  - the Authority had effective financial management arrangements; and
  - the Authority's significant financial systems were fit for purpose.

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7. The Authority has appropriate corporate arrangements in place to support effective use of resources:
    - the Authority had proper arrangements in 2009-10 to help it achieve economy, efficiency and effectiveness in its use of resources; and
    - the Police Authority Inspection supports my conclusion about the arrangements to secure efficient, economical and effective services.
  8. This Letter has been agreed with the Treasurer and the Director of Resources and other relevant officers. The Letter will be presented to the Audit and Resources Committee on 16 December 2010 and a copy provided to every member of the Authority.
  9. 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.

John Herniman  
Partner  
For and on behalf of the Appointed Auditor

Date: November 2010

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

- 10. 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.
- 11. 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 present fairly the financial position of the Authority at the year-end.

**The Authority’s 2009-10 accounts were properly prepared and materially accurate, and work continues to ensure the consistent treatment across Wales of Police Authorities of Wales transactions in the 2010-11 accounts**

- 12. The Authority 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 Regulations (Wales) 2010.
- 13. I am required by International Standard 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. My Engagement Partner reported these issues to the Audit and Resources Committee on 16 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.	There were no concerns about the qualitative aspects of your accounting practices and financial reporting.
Expected modifications to the auditor’s report.	No modifications to the auditor’s report.
Unadjusted misstatements.	There were no uncorrected misstatements.
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.

Reporting requirement	Auditor's response
Any other relevant matters relating to the audit.	<p>We reported two other matters to you:</p> <ul style="list-style-type: none"> <li>• The information provided by the IT Department as part of the 2009-10 fixed asset verification exercise was not robust.</li> <li>• Agreement as to how Police Authorities of Wales transactions are accounted for in the financial statements of all police authorities was still to be reached.</li> </ul> <p>No other matters arose.</p>

15. On 30 September 2010 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 2010 and of its income and expenditure, gains and losses and cash flows for the year then ended.
16. We have recently completed the audit of the Whole of Government Accounts return. The return was well compiled and there were no matters of significance to report.
17. New requirements for financial reporting will shortly be required under IFRS. This will impact on the accounting treatment of the Authority's Ystrad Mynach Station PFI scheme. We are continuing to work with the Authority to prepare for these changes and other adjustments required under these Standards.

### **The Authority met its revenue budget for 2009-10, and understands it has significant financial challenges ahead**

18. The Authority has a good track record of operating within its revenue budget and this continued in 2009-10. Net expenditure of £150.5 million matched the original budget expenditure. The General Reserve decreased by £0.5 million to £5.5 million after transfers out to other earmarked reserves.
19. The Authority continues to receive regular reports from the Treasurer and Director of Resources on expenditure and position against budget. The report for the period ending 30 September 2010 showed that the year-end position forecast a £6.0 million underspend after utilising £1.8 million of savings and was in line with expectations. This helps strengthen the position of the Authority to meet future operational and non-operational challenges.
20. The Comprehensive Spending Review in October 2010 means the Authority has significant challenges to manage the financial position over the short and medium term. The strong arrangements already in place and a good track record of exceeding efficiency targets should help the Authority to tackle these challenges.

## **The Authority had effective financial management arrangements**

21. The Authority has a history of having effective financial management processes in place. In particular, I concluded that:
- the arrangements to maintain the systems of internal control were found to be effective;
  - as in previous years, Internal Audit has met the required professional standards and our planned reliance on their 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 were found to be in place and had continued to operate effectively; and
  - the ethical framework of the Authority was found to be operating effectively together with the arrangements for preventing and detecting fraud and corruption.
22. I will continue to monitor the financial position of the Authority in 2010-11.

## **The Authority's significant financial systems were fit for purpose**

23. My review of the Authority's financial systems involved documenting the significant financial systems and where necessary either undertaking testing of the operation of internal controls or relying on internal audit work for assurances that controls are effective.
24. I concluded that the Authority's significant financial systems can be relied upon to produce materially correct outputs. There are some minor areas for improvement which have been discussed with management and appropriate actions are already being considered and implemented. There are no specific matters 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 2009-10 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 2009-10 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 Her Majesty's Inspectorate of Constabulary and Internal Audit.
27. The Accountable Officer was 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 matters arising from my work in this area for 2009-10 that I wish to draw to your attention.
29. Additionally as part of my work to support the VFM conclusion, I also considered the results arising from the Police Authority Inspection carried out in early 2010.

### **The Police Authority Inspection supports my conclusion about the arrangements to secure efficient, economical and effective services**

30. For the first time, the Wales Audit Office and Her Majesty's Inspectorate of Constabulary (HMIC) jointly inspected the Authority across the full range of its activities. The inspection found that the Authority is performing well overall and is in a strong position to further improve. The Authority ensures that both it and the force have the leadership, capacity and capability needed to deliver good quality service outcomes on behalf of the public and ensure a clear and sustained focus on value for money. I came to the conclusion as the Authority:
  - demonstrates effective leadership and scrutiny and provides strategic direction and influence, working closely with the Force to set and ensure delivery of their priorities and outcomes for the public;
  - has developed systems and protocols for effective community engagement and partnership working and is strongly committed to addressing inequality and disadvantage through engagement with Black and Minority Ethnic (BME) communities, hard-to-reach and vulnerable groups;
  - achieved benefits from the Staying Ahead review which are producing significant efficiency savings and better matching of resources to demand; and
  - is committed to collaboration and joint working with other organisations and the benefits of collaboration have been realised in a number of key areas.
31. The findings have been discussed with management and the report was published in February 2010.
32. Additionally as part of my work to support the VFM conclusion, the planned performance audit work on sustainable development and performance management framework is ongoing. This work will consider the development of a more corporate approach and framework towards sustainable development and internal performance measurement of support services and functions.

33. I will be meeting Her Majesty's Inspector of Constabulary to discuss potential joint working proposals for performance work in 2011.

## Appendix 1

## Conclusion on Gwent Police Authority's arrangements for the year ended 31 March 2010 for securing economy, efficiency and effectiveness in its use of resources

<b>Accountable Officer's responsibilities</b>	
<p>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.</p>	
<b>Auditor's responsibilities</b>	
<p>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.</p> <p>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.</p>	
<b>Conclusion</b>	
<p>The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2009-10 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.</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 Authority'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 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.</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 Authority'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
<b>Establishing objectives determining policy and decision making</b>	Has the Authority put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
<b>Meeting the needs of users, stakeholders and the local population</b>	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?
<b>Monitoring and reviewing performance</b>	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?
<b>Compliance with established policies</b>	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?
<b>Operational and financial risks</b>	Has the Authority put in place arrangements to manage its significant business risks?
<b>Managing financial and other resources</b>	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?
<b>Proper standards of conduct etc</b>	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?

## Appendix 3

**Reports issued since my last audit letter**

<b>Report</b>	<b>Date</b>
Outline Strategy	February 2010
External Audit Update Reports	February, April, June, September, October 2010
Financial Accounts Audit and Report to those Charged with Governance	September 2010
Annual Audit Letter	November 2010



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Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ  
Tel: 029 2032 0500  
Fax: 029 2032 0600  
Textphone: 029 2032 0660  
E-mail: [info@wao.gov.uk](mailto:info@wao.gov.uk)  
Website: [www.wao.gov.uk](http://www.wao.gov.uk)