



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Annual Audit Report 2011

Gwent Police Authority

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Status of report

The team who delivered the work comprised John Herniman, Matthew Coe, David Hole Greg Maw and Tony Whitehead.

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Summary report

1. This Annual Audit Report (the Report) to members of the Gwent 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 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. 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 sets out the proposed audit fee of £67,588 (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, 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 well placed to deliver its response to the significant financial challenges ahead;
 - the Authority had an effective internal control environment 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 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 Resources and other relevant officers. The Report will be presented to the Audit and Resources Committee on 15 December 2011 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.



John Herniman
For and on behalf of the Appointed Auditor

Date: 8 November 2011

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

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

11. The Authority produced its draft financial statements and approved them before 30 September 2011, in accordance with the requirements of the Accounts and Audit Regulation (Wales) 2010.
12. 2010-11 was also the first financial year that police authorities had to produce financial statements under International Financial Reporting Standards (IFRS). We worked with management on the first time application of IFRS and the finance staff adapted well to the more onerous IFRS requirements.
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 Audit and Resources Committee on 23 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.	With the exception of the verification process for ICT assets noted below, we have no concerns about the qualitative aspects of your accounting practices and financial reporting.
Expected modifications to the auditor's report.	No modifications were required to the auditor's report.
Unadjusted misstatements.	There were no uncorrected misstatements.

Reporting requirement	Auditors' response
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.	<p>We reported two other matters to you:</p> <ul style="list-style-type: none"> In 2009-10, we raised concerns in respect to the physical verification of assets in the IT department. These concerns had not been addressed in 2010-11 and the IT department had not undertaken a full and robust review of all IT assets for the 2010-11 accounts. 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 must be addressed for 2011-12.

15. On 30 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, 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.

The Authority met its revenue budget for 2010-11, and is well placed to deliver its response 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 £121.6 million, the Authority recorded an under-spend of £8.2 million after accounting adjustments, due to financial management in a period of transition. The saving was transferred to earmarked reserves to fund future changes in services and estates. There was no net movement on the General Reserve, which remained at £5.5 million.
18. 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 2011 showed that the year-end position forecasts savings of £2.9 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 arising from the comprehensive spending review in October 2010.

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

19. The Authority has an effective internal control environment which reduces the risk of material misstatement to the financial statements. Internal audit concluded in their annual report that:
- ‘Gwent Police Authority has: “A basically sound system of internal control, although there are weaknesses which may put some of the system objectives at risk.” This provides a Reasonable Assurance level overall regarding the achievement of Gwent Police Authority’s objectives’.
20. 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 governance framework of the Authority was found to be 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 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.
23. 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. All recommendations made by Internal and External audit are reported to the Audit and Resources Committee, which monitors their implementation, by management. 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 2010-11 to help it achieve economy, efficiency and effectiveness in its use of resources

24. 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.
25. 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 (HMIC) and Internal Audit.
26. 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.
27. There were no 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

28. HMIC conducted fieldwork for its review, 'Valuing the Police: Preparedness Inspection', in February 2011 and we accompanied HMIC to a number of the information gathering meetings at that time. HMIC published their 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 2011.
29. HMIC's local report found that:
 - the Authority and Force understand the financial challenge ahead of them, and have committed to meeting it;

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- there is a clear financial plan showing a measured approach to the cuts and detailing a range of budget reductions and efficiencies over the four years of the comprehensive spending review;
 - the history of making efficiencies through the 'Staying Ahead' means that the Authority and Force are well placed to identify further low-risk savings;
 - the Force and Authority's plans for the workforce will continue to be refined as the change programme progresses;
 - there is a firm commitment to protecting visible policing at a neighbourhood level, with high levels of resources within neighbourhood policing being maintained across the Force, coupled with a focus on protecting the public from harm;
 - effective consultation arrangements were in place to inform decisions over the next four years, with a measured and intentionally low-key approach to communicating the results of the comprehensive spending review and key messages being taken with community forums and partners; and
 - the Home Secretary expects police forces and authorities to make financial cuts while still reducing crime and without damaging the front line and Gwent's Local Policing Plan includes objectives to reduce burglary, metal thefts and anti-social behaviour over the coming year.
- 30.** 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.
- 31.** 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 first round of HMIC's Valuing the Police (VtP) Inspections and publication of the recent 'Adapting to Austerity' thematic report.
- 32.** The benefit of a coordinated approach between WAO 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.
- 33.** We will jointly be involved in the forthcoming support and challenge meetings and any 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 AGW

Appendix 1

Conclusion on Gwent 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 Report to the Authority.

Anthony Barrett
Appointed Auditor
November 2011

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?
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?

Appendix 3

Reports issued since my last audit letter

Report	Date
Audit Outline 2011	June 2011
External Audit Update Reports	February, April, June, September, October 2011
Audit of Financial Statements Report	September 2011
Annual Audit Report	November 2011



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