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Auditor General for Wales

Annual Audit Letter for 2015-16 – **Police and Crime Commissioner for North Wales and Chief Constable of North Wales Police**

Date issued: November 2016

Document reference: 622A2016



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The team who delivered the work comprised Ann-Marie Harkin, Michelle Phoenix, and Andy Bruce and Alan Hughes.

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Introduction

- 1 This report summarises my findings from the audit work I have undertaken in relation to both the Police and Crime Commissioner for North Wales (the Commissioner) and the Chief Constable of North Wales (the Chief Constable) during 2016.
- 2 The work I have done allows me to discharge my responsibilities under the Public Audit (Wales) Act 2004 (the 2004 Act) in respect of the audit of accounts and both corporations' sole arrangements to secure efficiency, effectiveness and economy in their use of resources.
- 3 More detail on the specific aspects of my audit can be found in the separate reports that I have issued during the year. My team has discussed and agreed these reports with officers and presented them to the Police and Crime Commissioner, the Chief Constable and Joint Audit Committee. My 2016 Audit Plan set out the financial statements audit risks for 2016, and [Appendix 2](#) shows how they were addressed as part of the audit.

I issued unqualified opinions on the 2015-16 financial statements of the Police and Crime Commissioner, Chief Constable and Police Pension Fund

- 4 The financial statements are an essential means by which the Commissioner and the Chief Constable accounts for their stewardship of the resources at their disposal and their financial performance in the use of those resources. It is their responsibility to:
 - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
- 5 I am required to audit the financial statements and to issue audit reports which include an opinion on whether the financial statements give a 'true and fair' view of the state of affairs of the Commissioner, the Chief Constable and the Police Pension Fund. The reports also give my opinion on whether the financial statements have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and relevant regulations.
- 6 On 27 September 2016, the Auditor General for Wales issued unqualified audit reports on the Commissioner's, Chief Constable's and the Police Pension Fund's financial statements.

- 7 We received the draft financial statements for both the Commissioner and the Chief Constable for the year ended 31 March 2016 on 30 June in line with the required deadline.
- 8 We found the information and working papers provided to support the accounts to be relevant, reliable, comparable, and easy to understand. We concluded that accounting policies and estimates were appropriate and financial statement disclosures unbiased, fair and clear. There were no significant difficulties encountered during the audit. We received information in a timely and helpful manner and were not restricted in our work.
- 9 International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of the audit of the financial statements. The Audit of the Financial Statements Report was presented to the Commissioner and Chief Constable, and to the Joint Audit Committee at their meeting on 21 September 2016. A summary of the findings is set out in [Exhibit 1](#).

Exhibit 1: Audit of Financial Statements Report to the Commissioner and Chief Constable

Reporting requirement	Audit findings
Modifications to the auditor's report	No modifications required, unqualified opinions given
Unadjusted misstatements	No unadjusted misstatements
Views about the qualitative aspects of the entity's accounting practices and financial reporting	No matters reported
Matters corresponded upon with management	No matters reported
Matters significant to the oversight of the financial reporting process	No matters reported
Material weaknesses in internal controls	No material weaknesses identified
Matters specifically required by other auditing standards to be communicated to those charged with governance	No matters reported

I am satisfied that the Commissioner and Chief Constable had appropriate arrangements in place in the year to secure economy, efficiency and effectiveness in their use of resources

- 10 My consideration of the Commissioner's and Chief Constable's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts. I have also placed reliance on:
- the results of the audit work undertaken on the Commissioner's and the Chief Constable's systems of internal control, as reported in the Annual Governance Statements;
 - the results of 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.
- 11 For the purposes of my work, I evaluated the Commissioner's and the Chief Constable's systems against a number of questions. This approach is set out in detail in [Appendix 1](#). For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.

The Commissioner and Chief Constable have well established frameworks in place to set, consult on and monitor performance against strategic objectives and priorities

- 12 We found that the Commissioner sets out his priorities and objectives clearly in the Police and Crime Plan for each year, the latest being for 2016. The plan is prepared annually following consultation with key stakeholders including the Chief Constable, residents of North Wales and key public sector partners.
- 13 The Strategic Executive Board, chaired by the Commissioner, provides scrutiny and challenge to review and monitor implementation of the plan. Further scrutiny is provided by the independent Police and Crime Panel who consider the plan and also other key decisions made by the Commissioner such as the 2016-17 Council Tax precept.

- 14 Operational performance is monitored at various levels throughout the Force. The Senior Management Team meet weekly and the Chief Officers meet every 2 weeks to consider operational matters and performance against the objectives within the plan; the Chief Constable monitors performance and progress against the plan's objectives at the Strategic Planning Board and the Police and Crime Commissioner reports progress to the Strategic Executive Board. Reporting includes financial performance against budgets and savings plans along with operational performance.
- 15 The systems of internal control and governance have continued to develop in 2015-16. The Manual of Corporate Governance sets out the Commissioner's legal and governance frameworks to support his functions and includes the Scheme of Consent between the Commissioner and the Chief Constable. The Joint Governance Board is in place to ensure that the Commissioner and the Chief Constable fulfil their corporate governance responsibilities.
- 16 The Joint Audit Committee formally met four times in 2015-16 to consider the results of the work of Internal Audit and ourselves, and has carried out a self-assessment exercise of its own performance in the year. The Joint Audit Committee continues to work well, providing appropriate assurances and recommendations to the Commissioner and Chief Constable, and producing an annual report summarising its work.
- 17 The Risk Management process is under review following the departure of the Risk Manager at the end of 2015-16 and the re-allocation of this area within the Force. The Commissioner and Chief must ensure that this new approach continues to be developed going forward.
- 18 The Commissioners and Chief Constables of the four forces in Wales meet regularly in the All Wales Policing Group to consider issues and co-ordinate responses. This group developed a standard Memorandum of Understanding for all Wales collaborative work, which sets out the monitoring and scrutiny arrangements for that collaborative work. This Memorandum of Understanding has also been adopted by the Commissioner across his collaborative arrangements.
- 19 Our audit work on the Commissioner's and Chief Constable's 2015-16 financial statements and Annual Governance Statements did not identify any significant weaknesses in the systems of control.
- 20 Reviews conducted by HMIC support my conclusions about arrangements to secure an efficient and effective police service. Alongside their reviews of specific aspects of the Force's operations, HMIC also conduct an overall review of police effectiveness, efficiency and legitimacy (PEEL). HMIC published its 2015 PEEL assessment and a review of the Force's leadership in February 2016, and the efficiency element of the 2016 PEEL assessment was published in November 2016. Further details of the PEEL methodology and the detailed PEEL assessment conclusions relating to North Wales Police are available on [HMIC's website](#).

The Commissioner and Chief Constable met their revenue budgets for 2015-16, and continue to respond positively to significant financial challenges

- 21 The Commissioner and Chief Constable have continued to operate within their revenue budget in 2015-16, with the Commissioner achieving an underspend of £1.1 million. This amount was transferred to reserves to meet future operational changes.

The Strategic Executive Board, Commissioner and the Chief Constable continue to receive regular reports from the Chief Finance Officer, and the Director of Finance and Resources, respectively, on expenditure and position against budget

- 22 The finance update in May 2016 indicated that a break even position was expected for 2016-17. North Wales Police and Crime Commissioner is helping co-ordinate activities with partners and is addressing complex working arrangements and potential barriers to improving community safety
- 23 In the 2015 Audit Plan to the Commissioner and Chief Constable, we stated our performance work programme would focus on a review of the effectiveness of the Commissioner's collaboration and partnership arrangements, focusing primarily on Community Safety activities. Our force-level review of community safety forms part of a national study, which is being undertaken at an all Wales (Welsh Government), regional (Commissioner area) and local (local authority/Community Safety Partnership) level. The study sought to answer the question: **Are Welsh Government, Police and Crime Commissioners and Community Safety Partnerships (CSPs) working effectively together to tackle crime and other public safety issues that have a negative effect on people's wellbeing?**
- 24 The Audit General for Wales [published his national report](#) on 18 October 2016 and provided conclusions on the work of the all of the partners involved in the management of community safety in Wales. Based on the findings of this national audit, the Auditor General concluded that **complex responsibilities make it difficult for public bodies to co-ordinate a strategic approach to community safety, which weakens collective leadership and accountability and undermines the potential to help people stay safe.**

- 25 We also produced a specific report for the Commissioner and Chief Constable setting out our local findings on community safety partnership working, taking account of the broader findings from evidence gathered for the national study. In this local report we concluded that **North Wales Police and Crime Commissioner is helping co-ordinate activities with partners and is addressing complex working arrangements and potential barriers to improving community safety**. We reached this conclusion because:
- The Commissioner plays a significant role in community safety and is supported well by partners across the region
 - Shared priorities for community safety in North Wales provide a focus for partners and further refinement will strengthen these arrangements
 - The Commissioner and North Wales Police are working well with their partners to deliver their community safety priorities
 - The Commissioner is receptive to improving value for money in community safety
 - The Commissioner and his partners are taking steps to address weaknesses in governance and scrutiny of community safety performance
- 26 We are aware that since our fieldwork across Wales, organisations continue to develop and review their work on community safety with their partners. We also acknowledge that the Commissioner has identified a number of weaknesses within the partnership framework on community safety and made some progress in developing a number of initiatives to address them.
- 27 We continue to provide challenge and support to senior officers and staff through our ongoing discussions on the in-year and future plans of the Commissioner and Chief Constable.
- 28 Based on the Commissioner's and Chief Constable's Annual Governance Statements and as a result of the work carried out, as described above as part of my audit of the 2015-16 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Commissioner and Chief Constable had in place during the year to properly support the achievement of their responsibilities to secure economy, efficiency and effectiveness in their use of resources. Based on, and limited to, the work carried out I have raised various issues with, and made recommendations to, improve the Commissioner's and Chief Constable's arrangements.

I issued a certificate confirming that the audit of the accounts has been completed on 27 September 2016

- 29 I issued a certificate confirming that the audit of the accounts for the Commissioner and the Chief Constable had been completed on 27 September 2016.
- 30 I estimated in the Audit Plan 2016 that the 2015-16 audit fee would be £82,166. The actual audit fee is in line with my original estimate.

Appendix 1

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

Criteria and questions considered to assess arrangements for economy, efficiency and effectiveness

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

Appendix 2

Significant audit risks

My 2016 Audit plan set out the significant financial audit risks for 2015. The table below lists these risks and sets out how they were addressed as part of the audit.

Significant audit risk	Proposed audit response	Work done and outcome
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: <ul style="list-style-type: none"> test the appropriateness of journal entries and other adjustments made in preparing the financial statements; review accounting estimates for biases; and evaluate the rationale for any significant transactions outside the normal course of business. 	No issues were noted from our review and testing of journal entries. There were no issues noted in relation to other significant estimates in the accounts.
There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27].	We will review the design and test the operation of controls in the systems relating to: <ul style="list-style-type: none"> treasury management; grant income; and other income sources. 	No issues were noted from our review of the controls for treasury management, grant income or other income sources.
The continued period of financial constraint with the requirement to achieve further cost savings, combined with the changes to key staff gives rise to a risk over the production of the accounts and compliance with the required International Financial Reporting Standards (IFRS) and the Code of Practice on Local Authority Accounting in the United Kingdom.	We will review the key controls to support the production of accurate accounts and undertake audit work to confirm that the accounts have been prepared in accordance with the applicable standards.	No significant issues were noted.
There will be Police and Crime Commissioner elections in May 2016 which could impact on production and audit of key documents during the year.	My audit team will liaise with management to identify areas of the accounts production process that could be affected by these upcoming elections, and will work to ensure that any potential disruption is minimised.	No significant issues were noted.

Significant audit risk	Proposed audit response	Work done and outcome
<p>There were a number of separate provision balances and contingent liability disclosures included in the 2014-15 financial statements. We are aware that there have been developments with regard to a number of these balances and disclosures during the year.</p>	<p>My audit team will review all significant provision balances and contingent liability disclosures, and assess the impact of any developments occurring during the year on the financial statements.</p>	<p>No significant issues were noted.</p>
<p>Work is ongoing to identify jointly-controlled operations which require disclosure under the Code and audit regulations. This work will require co-ordination with other Welsh forces to determine agreed outcomes and consistency across Wales.</p>	<p>My audit team will liaise with management and offer assistance during this work where required, to ensure that all jointly controlled operations are identified and reported upon accurately in the financial statements.</p>	<p>Appropriate adjustments were made to the 2015-16 financial statements to reflect the calculated share of benefit from collaborative operations. Further work with other Welsh forces is needed to provide this information earlier for 2016-17.</p>

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