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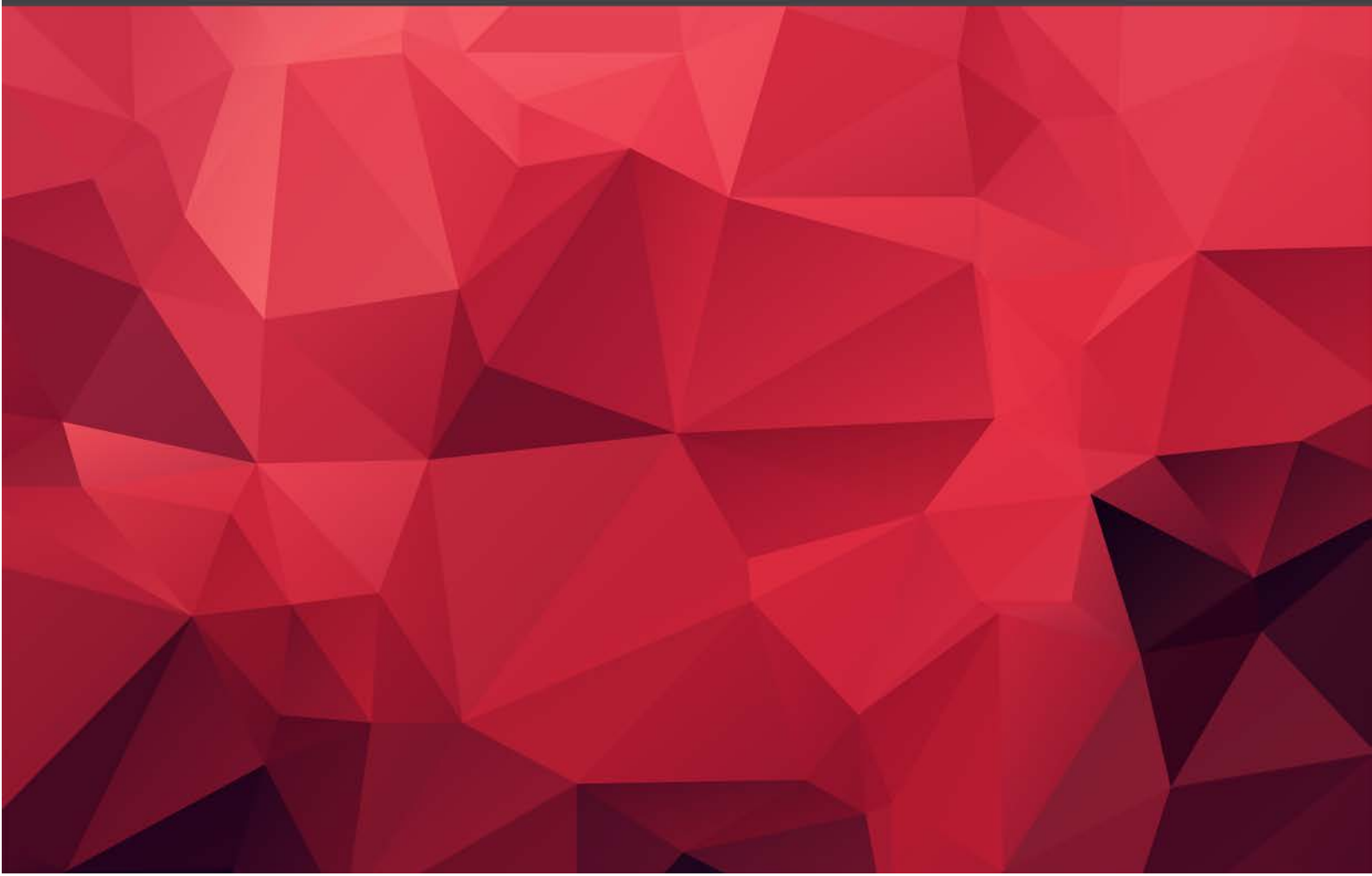
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Auditor General for Wales

Annual Audit Report for 2015-16 – **Police & Crime Commissioner for South Wales and Chief Constable of South Wales Police**

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The team who delivered the work comprised Ann-Marie Harkin, Matthew Coe, Andy Bruce and Gareth Lucey.

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Summary report

Introduction

- 1 This report summarises my findings from the audit work I have undertaken in relation to both the Police & Crime Commissioner and Chief Constable of South Wales 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 & Crime Commissioner, Chief Constable and Police Pension Fund

- 4 The financial statements are an essential means by which the Police & Crime Commissioner for South Wales (the Commissioner) and the Chief Constable of South Wales Police (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 30 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 The draft financial statements were signed by the Chief Financial Officers to the Commissioner and the Chief Constable on 30 June 2016, in line with the statutory deadline. We received these draft financial statements for the year ended 31 March 2016 on 6 July 2016, in line with the agreed audit timetable.
- 8 The quality of the draft accounts submitted for audit was a further improvement on the previous year, reflecting additional work on the part of management and staff as part of the year-end closedown process. 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 16 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 uncorrected 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 corresponded upon with management.
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 has set out his priorities and objectives clearly. A Police and Crime Reduction Plan 2015-18 was already in place for this purpose, with the introduction of a new Police and Crime Reduction Plan 2016-21 in January 2016. The respective Plans are underpinned by the Chief Constable's Delivery Plan.
- 13 Review and monitoring of progress against the Commissioner's priorities and objectives has been performed by the Joint Planning and Performance Group under the 2015-18 Plan, which in turn reported to the Commissioner's Strategic Board. However, from January 2016 five 'Bronze' Boards have been established (each with representation from the Commissioner and Chief Constable) to review and monitor progress against the priorities set out in the revised 2016-21 Plan. These arrangements have ensured an appropriate level of scrutiny and challenge during the year.
- 14 The Commissioner has consulted widely on the priorities to be included in both Police and Crime Reduction Plans, as well as other key projects such as the recent Community Remedy Scheme. The Commissioner and Chief Constable meet

regularly with the Leaders and Chief Executives of all seven Local Authorities within the Force's boundaries, and also engage with the wider public, with a Joint Consultation Team in place to manage this work. This indicates a strong level of engagement with partners and the wider public.

- 15 The Commissioner's Strategic Board and the Chief Constable's Gold Group are responsible for monitoring the operational performance of the Force. This includes monitoring of financial performance and value for money savings plans. As noted above, governance arrangements below this level have changed since January 2016. The independent Police and Crime Panel (the Panel) receives and discusses regular performance and outturn reports on a wide range of operational issues. The Panel also scrutinises and comments on strategy papers produced by the Commissioner.
- 16 The systems of internal control and governance have developed in 2015-16. The Manual of Corporate Governance (reviewed annually) sets out the Hallmarks of Relationships between the Commissioner and Chief Constable, schemes of delegation, financial regulations and contract standing orders. A new Independent Ethics Committee was also established in November 2015 to provide advice and guidance to the Commissioner and Chief Constable on ethical matters. A Joint Risk Register was produced prior to January 2016 and reported to the Commissioner's Strategic Board and Audit Committee. Since January 2016, five revised Registers of Uncertainty have been produced which are reported to the five 'Bronze' Boards established by the Commissioner and Chief Constable.
- 17 The Joint Audit Committee formally met four times in 2015-16 to consider the results of the work of Internal Audit and ourselves. 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.
- 18 The Commissioners and Chief Constables of the four forces in Wales meet regularly in the All Wales Policing Group to consider issues and coordinate responses. This group developed a standard Memorandum of Understanding for all-Wales collaborative work, which sets out the monitoring and scrutiny arrangements for such work. This Memorandum of Understanding has also been adopted by the Commissioner across his collaborative arrangements. A Southern Wales Collaboration Board also met four times in 2015-16 to receive updates on current collaboration schemes, consider business cases for potential future collaboration and review the ongoing financial impacts of any such ventures.
- 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, with only minor improvements recommended to management.
- 20 There are some areas of arrangements for the Commissioner and Chief Constable to develop in 2016-17. Alongside the recommendations from our national and local reports on Community Safety Partnerships, the revised governance and risk

management arrangements will need to be consolidated, and to continue the appropriate governance of collaboration as further joint arrangements are considered by the Force.

- 21 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 South Wales Police are available on HMIC's website at <http://www.justiceinspectrates.gov.uk/hmic/>.

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

- 22 Against a total budget requirement for the year of £257.0 million, the Commissioner reported a small underspend of £0.2 million. Transfers from earmarked reserves ensured that the Police Fund General Reserve was maintained at £9.2 million at 31 March 2016.
- 23 In 2016-17, the Commissioner and the Chief Constable continue to receive regular reports from the Chief Finance Officer and the Director of Finance, respectively, on expenditure and position against budget. This information is also provided to the Strategy Board. There is increasing pressure to identify savings that, alongside council tax precept increases, will cover the predicted cumulative financial deficit of £96.0 million to 31 March 2020 identified from the 2010 and 2013 Comprehensive Spending Reviews. Total cumulative savings/cost reductions of £39.4 million were delivered by 31 March 2016, and include £7.0 million of savings delivered in 2015-16. Further savings of £19.0 million are forecasted to be required over the next four years to 31 March 2020, alongside council tax precept increases, in order to cover the cumulative financial deficit.
- 24 As part of our audit, we consider the effectiveness of the controls and processes in place for the Commissioner and his staff to monitor budgets and the overall financial position. Our work did not identify any significant weaknesses in the budgetary controls or processes used by management in the year.

The South Wales Police and Crime Commissioner provides effective leadership on community safety but complex working arrangements and poor alignment of plans are creating barriers to improvement

- 25 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 formed part of a national study, undertaken at an all Wales (Welsh Government), regional (Commissioner area) and local (local authority/Community Safety Partnership) levels.
- 26 The Auditor General for Wales published his national report on 18 October 2016 and provided conclusions on the work of all of the partners involved in the management of community safety in Wales. The national report [Community safety in Wales](#) is available on our website.
- 27 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 **The South Wales Police and Crime Commissioner provides effective leadership on community safety but complex working arrangements and poor alignment of plans are creating barriers to improvement**. We reached this conclusion because:
- the Commissioner provides effective leadership on community safety;
 - the Commissioner has appropriate plans and strategies for addressing community safety however other plans for community safety within the region are not sufficiently integrated or aligned;
 - the Commissioner is working effectively with partners to deliver their community safety priorities;
 - the Commissioner is continually striving to improve value for money in community safety; and
 - the Commissioner has appropriate performance management systems but could do more to explain the information to the public and partners.
- 28 We are aware that since our fieldwork, some organisations continue to develop and review their work on community safety. 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.

- 29 Based on the Commissioner's and Chief Constable's Annual Governance Statements and the work carried out as described above, 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 had been completed on 30 September 2016

- 30 I issued a certificate confirming that the audit of the accounts for the Commissioner and the Chief Constable had been completed on 30 September 2016.
- 31 I estimated in the Audit Plan 2016 that the 2015-16 audit fee would be £106,670. 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

Exhibit 2: Criteria for assessing arrangements

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	<p>Has the Commissioner/Chief Constable put in place arrangements to evaluate and improve the value for money he achieves in his use of resources?</p> <p>Has the Commissioner/Chief Constable put in place arrangements to ensure that his spending matches his available resources?</p> <p>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?</p>

Corporate performance management and financial management arrangements	Questions on arrangements
Proper standards of conduct etc	<p>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?</p> <p>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?</p>

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.

Exhibit 3: Significant audit risks

Significant audit risk	Proposed audit response	Work done and outcome
<p>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].</p> <p>In particular, the ongoing financial constraints (and cost savings requirements) arising from recent UK Government comprehensive spending reviews increase the risk of management override.</p>	<p>My audit team will:</p> <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. 	<p>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.</p>
<p>The financial statements need to comply with International Financial Reporting Standards (IFRS). The Commissioner and Chief Constable and their staff must:</p> <ul style="list-style-type: none"> • ensure that each set of accounts are prepared to appropriately reflect the substance of day-to-day control of activities as well as legal positions; and • have a full understanding of IFRS requirements, keeping up-to-date with new requirements and ensure risks and issues are identified and dealt with appropriately. 	<p>We will continue to work with and support the Commissioner and Chief Constable and their staff to agree the most appropriate presentation in both sets of financial statements and the group statements.</p> <p>We will also agree improvements to the methodology and working papers supporting the financial statements, where necessary.</p>	<p>A number of changes to the notes to the accounts were made as a result of this work and disclosures are in line with accounting requirements.</p>

Significant audit risk	Proposed audit response	Work done and outcome
There will be Police & 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.
There is a planned restructure of the Finance department during the year.	We will liaise with management to determine the progress of this restructure, and how it will affect the logistics of accounts production and our financial audit.	No significant issues were noted from the financial restructure and our testing on the associated costs.
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.	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.	We tested the provision balances and contingent liability disclosures and no significant issues were noted.
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.	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.	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.
The Home Office and Ministry of Justice have provided several funding streams to the Commissioner in the year.	We will test these additional funds to source documents, verify they have been distributed appropriately and ensure they are accounted for correctly in the accounts.	No significant issues were noted.

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