



## Annual Audit Letter for 2014-15

# **Police & Crime Commissioner for South Wales and Chief Constable of South Wales Police**

**Issued:** November 2015

**Document reference:** 606A2015

# Status of report

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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

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## 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 2015.
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 corporation soles 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 discussed and agreed these reports with officers and presented them to the Commissioner, the Chief Constable and Joint Audit Committee. My 2015 Audit Plan set out the significant financial audit risks for 2015 and how they were addressed as part of the audit is set out in [Appendix 1](#).

## I issued unqualified opinions on the 2014-15 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 the responsibility of the audited body 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 2014-15 and relevant regulations.
6. On 30 September 2015, the Auditor General for Wales issued unqualified audit reports on the Commissioner's, Chief Constable's and the Police Pension Fund's financial statements.

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7. We received all the draft financial statements for the year ended 31 March 2015 on 30 June 2015, which is in line with the agreed deadline. However, these draft accounts were awaiting information on collaboration income and expenditure and a provision for backdated pension lump sum payments. This information was subsequently provided and entered into the accounts.
  8. I found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
  9. There were no significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work. In 2013-14 we noted a number of deficiencies in the accounts preparations process and management implemented a detailed action plan to address them. The quality of the 2014-15 draft accounts submitted for audit was significantly improved from previous years, reflecting the substantial additional work undertaken by management and staff as part of the year-end closedown process.
  10. One area that was material and particularly complex that required specific attention, was a liability on the Police Pension Fund arising from updates to the calculation of historic lump sum payments to pensioners retiring between 2001 and 2006. This was the result of changes to historic commutation factors applicable to all police forces. The statements presented for audit correctly included a provision for this item which was updated when further information became available from the government actuary department in July 2015. We concluded that the updated provision included in the accounts was a reasonable estimate of the potential liabilities.
  11. 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 29 September 2015. 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.
Unadjusted misstatements	One uncorrected misstatement identified. The full impact of the share of benefits from collaborative operations was not shown in the accounts. We were content that the net impact of £526,000 was not material to an understanding of the accounts, but we recommended that this information is obtained earlier in future and reflected in full in the 2015-16 draft accounts prior to them being passed for audit.

Reporting requirement	Audit findings
Views about the qualitative aspects of the entity's accounting practices and financial reporting	No matters reported.
Matters corresponded upon with management	2014-15 was the first year that the accounts have been required to disclose the ratio of the Chief Executive's and the Chief Constable's remuneration to the median remuneration of offices and staff. We noted that further refinement to the calculation of the ratios is needed for 2015-16. No other significant matters were 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 the Chief Constable had appropriate arrangements in place to secure economy, efficiency and effectiveness in their use of resources

12. 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 and my reports thereon; 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.
13. 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 2](#). For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.

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14. 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 (PCC area) and local (local authority/Community Safety Partnership) level. Whilst we have completed our local fieldwork in South Wales, our findings will also be informed by other streams of work within the national study that have yet to be completed. This work includes data analysis, surveys of the public and Community Safety Partnership members and fieldwork at local authorities, partnerships and Welsh Government. Taking account of this additional work will significantly add value to our local work by providing additional evidence and perspectives from a broad range of South Wales' stakeholders.
  15. When this additional work is completed early in 2016, we will produce a 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. Our national report will be published during 2016 and will provide conclusions on the work of all of the partners involved in the management of community safety in Wales.
  16. Based on the Commissioner's and Chief Constable's Annual Governance Statements, the results of the work carried out as part of my audit of the 2014-15 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 his responsibility 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.

### The Commissioner and Chief Constable continue to respond positively to significant financial challenges

17. In 2015-16, the Commissioner and the Chief Constable continue to receive regular reports from the Chief Finance Officer and the Assistant Chief Officer – Resources, respectively, on expenditure and position against budget. This information is also provided to the Strategy and Performance Board. The reported position up to 31 August 2015 showed that the Commissioner was on course to deliver all of the £7.5 million of efficiency schemes required in 2015-16.
18. However, there is increasing pressure to identify savings that cover the predicted cumulative financial deficit of £71.0 million to 31 March 2019 identified from the 2010 and 2013 Comprehensive Spending Reviews. Total savings/cost reductions of £32.0 million were delivered to 31 March 2015, including £5.3 million of savings delivered in 2014/15. Further savings of £39.0 million are forecasted to be required over the next four years.

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19. 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.

### South Wales Police is well placed to respond to future challenges

20. Our aligned work programme with HMIC involved jointly gathering evidence on whether the savings programmes are delivering positive and measurable changes towards a sustainable police service:
21. In October 2015, HMIC published its second assessment of police effectiveness, efficiency and legitimacy (PEEL) for each force across England and Wales, summarising HMIC's findings from the previous 12 months' inspections. Their overall conclusions were that South Wales Police is very well prepared to face its future financial challenges. Through robust financial management and a commitment to continuous improvement, the Force has successfully reduced its spending over the last spending review period, and is effectively planning for future financial challenges. In particular:
- South Wales Police's arrangements for matching resources to demand are impressive, and the Force has made a significant investment in assessing the demands placed upon it.
  - The Force's current operating model, implemented in 2010, has worked very well. Investments in new technology allowed it to reduce the numbers of basic command units (BCUs) from six to four, and neighbourhood teams from 30 to 19.
  - The Force has a strong track record in financial management and is well positioned to tackle both the current and future financial demands placed upon it.
  - South Wales Police is vigorously pursuing all opportunities for additional funding, and has been highly successful in doing so.
22. Further details of the PEEL methodology and the detailed PEEL assessment conclusions relating to South Wales Police are available on HMIC's website at [www.justiceinspectors.gov.uk/hmic/](http://www.justiceinspectors.gov.uk/hmic/).
23. Reviews conducted by HMIC support my conclusions about arrangements to secure an efficient and effective police service. I 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.



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## I issued a certificate confirming that the audit of the accounts had been completed on 8 October 2015

24. I issued a certificate confirming that the audit of the accounts for the Commissioner and the Chief Constable had been completed on 8 October 2015.
25. I have also completed the audit of the Whole of Government Accounts return, and submitted the audited return to the Wales Audit Office central audit team by the required deadline of 2 October 2015. The return was generally well compiled and there were no matters of significance to report.
26. I estimated in the Annual Audit Outline that the 2014-15 audit fee would be £111,599. The actual audit fee is in line with my original estimate.

# Appendix 1

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## Significant audit risks

My 2015 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"><li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li><li>• review accounting estimates for biases; and</li><li>• evaluate the rationale for any significant transactions outside the normal course of business.</li></ul>	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 additional income and expenditure due in 2014-15 relating to the policing of the NATO summit. This will need to be accounted for and disclosed correctly within the financial statements. Similarly any changes following the Stage 2 transfer between the Commissioner and the Chief Constable will need to be accurately reflected in the financial statements.	My audit team will specifically test the additional expenditure relating to NATO and agree with management the correct accounting and disclosures for this event and the Stage 2 transfer.	No issues were noted from our testing and appropriate disclosures made within the accounts.
Changes to the definition of jointly controlled operations within the Code and audit regulations, means that additional activities may now need to be included in disclosures relating to collaboration. These changes affect all local government bodies in England and Wales.	I will work with police bodies in Wales to agree a common set of principles and consistent approach to recognition and disclosure with the financial statements.	Adjustments were made to the 2014-15 financial statements to reflect the share of benefit from collaborative operations, but there is more work to do to refine the calculations and provide this information earlier in the draft accounts process.

Significant audit risk	Proposed audit response	Work done and outcome
<p>There has been clarification of a number of ongoing pension-related issues including the treatment of deductions from ill health pension of Employment Support Allowance, and the protected pension age.</p>	<p>My audit team will liaise with management on the year-end position regarding these issues and ensure they are appropriately disclosed and accounted for in the financial statements.</p>	<p>The 2014-15 financial statements include a provision for a reasonable estimate of backdated lump sum payments. Appropriate disclosures have been made in the financial statements.</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"> <li>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</li> <li>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.</li> </ul>	<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>Various amendments to the disclosures in the accounts were made. There were significant improvements made to the 2014-15 accounts production and audit process which resulted in fewer amendments to the draft accounts.</p>
<p>A new payroll module is being implemented in the year as part of the FIRMS system. The intention is to process the March 2015 payroll through the new module and post entries from that module into the general ledger.</p>	<p>If the new module is used to post March 2015 information into the general ledger, we will test the upload of data to ensure that postings are accurate.</p>	<p>No issues were noted from our testing of the payroll expenditure in the year.</p>
<p>The Home Office and Ministry of Justice have provided several funding streams to the Commissioner in the year.</p>	<p>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.</p>	<p>No issues were noted from our testing of the Commissioner's income/funding.</p>

## Appendix 2

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

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



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