



24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Mr Nigel Stephens & Mr Darren Garwood Pask
ACOR & Chief Finance Officer
Police and Crime Commission for Gwent
Police Headquarters
Cwmbran
Torfaen
NP442XJ

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Dear Darren and Nigel

Annual Audit Letter Police & Crime Commissioner for Gwent and Chief Constable of Gwent Police

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

The Police & Crime Commissioner for Gwent and Chief Constable of Gwent Police complied with their responsibilities relating to financial reporting and use of resources

The Police & Crime Commissioner for Gwent (the Commissioner) and the Chief Constable of Gwent Police (the Chief Constable) are responsible for:

- putting systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure the security of assets;
- maintaining proper accounting records;
- preparation of Statements of Accounts in accordance with relevant requirements; and
- the establishment and review of appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Body's arrangements to secure economy, efficiency and effectiveness in its use of resources; and

- issue a certificate confirming that I have completed the audit of the accounts.

I issued unqualified audit opinions on the statements of accounts of both Police & Crime Commissioner for Gwent and Chief Constable of Gwent Police on 31 July 2018

Police bodies in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Body Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 31 July 2018 I issued unqualified audit opinions on the accounting statements for both the Commissioner and the Chief Constable, confirming that they present a true and fair view of each body's financial position and transactions. The key matters arising from the accounts audit were reported to the Commissioner and the Chief Constable in my Audit of Financial Statements report on 31 July 2018.

In 2016-17 we agreed with both the Commissioner and the Chief Constable to pilot earlier deadlines for both the accounts preparation and audit process (5 June for the production of the draft financial statements and 14 July for audit of the financial statements). In 2017-18, we agreed to work to these deadlines once again, bringing forward the Joint Audit Committee to 31 July. For 2018/19 onwards, these dates will become the statutory deadlines. Completing the production and audit of the accounts within these dates in 2017-18 was a significant achievement by the finance team, considering the challenges that were faced with the introduction of a new ledger system, changes in finance staff and the use of a new accounts preparation package. The process highlighted some important learning points which we reported in our Management Letter and which, if actioned, will help to achieve the accounts' submission deadlines going forward. We will continue to work with management over the coming months to ensure that the earlier deadlines are met in 2018-19.

I am satisfied that both the Police & Crime Commissioner for Gwent and Chief Constable of Gwent Police have appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

My consideration of the arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the statement of 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 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.

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** to this letter. For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.

Police bodies across Wales face significant financial challenges

Austerity funding remains the most significant challenge facing all police bodies in Wales and these financial pressures are likely to continue for the medium term. The recent provisional police funding settlement will see the Police & Crime Commissioner for Gwent's settlement remain at £71.5 million for 2018-19.

In the period between 2011-12 and 2017-18, the total income (including precept, non-domestic rates and grants) for the Police and Crime Commissioner for Gwent Group (the Group) fell by £12.047 million in real terms (a 8.26% decrease). To respond to these pressures, the Commissioner and the Chief Constable have had to make tough decisions about where to devote scarce resource and consider new ways to deliver services, as part of their Staying Ahead Programme. During the same period, expenditure on services decreased by £26.207 million in real terms (a 15.95% decrease).

In 2017-18, the Group contributed £3.789 million to the Police General Fund. For 2018-19, the Group is projecting that it will report a small surplus on the provision of services of £0.057 million (after planned efficiency savings of £0.183 million) and has identified the following key pressure points:

- reductions in real terms of national funding;
- inflationary pressures;
- service pressures; and
- increased employers' pension contributions.

In their Medium Term Financial Plan 2018-2023, the Commissioner and the Chief Constable have identified a projected recurring annual deficit of £4.837 million by 2022-23, providing a total savings target of £6.048 million can be met over the next five years in the following areas:

- Local policing - £1.000 million
- ICT Services - £0.950 million
- Enabling and Support Services - £0.700 million
- Estate and Facilities Management - £0.614 million
- Flexible Working Practices - £0.500 million
- Advanced Public Order - £0.500 million
- Other schemes < £0.500 million - £1.784 million

In cash terms, the Group's reserves have risen by £17.681 million since 2011-12, while in real terms they have increased by £13.695 million. This increase over the period is, mainly, as a result of the Staying Ahead Programme which has enabled challenging savings targets to be achieved ahead of time, generating additional reserves to support investment necessary to redesign the estate and introduce new initiatives.

As at 31 March 2018, the total usable reserves of £57.712 million represents 45.9% of the net cost of services compared to the all Wales average of 19.1%. The total usable reserves of £57.712 million includes £25.275 million which is committed to fund future expenditure against the Group's PFI site at Ystrad Mynach and to fund the replacement cost of the current Police Headquarters' site at Croesyceilog, Cwmbran.

The Home Office issued guidance during 2018 on the reporting of reserves, acknowledging that whilst reserves are needed to help manage financial risk and fund major future costs, each Police and Crime Commissioner needs to publish their reserves strategy setting out their plans for the reserves and how these will be used to improve services to the public. In their Reserves Strategy 2018-2023, Gwent Police forecast that their closing balance on their revenue and committed reserves will be £12.940 million by the end of 2022-23.

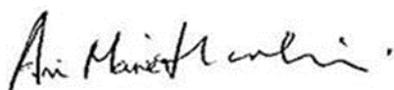
Careful consideration of reserves balances and how they might be used to support financial plans is particularly important as it is not sustainable to rely on reserves to support ongoing costs. Once reserves have been deleted, other sources of funds or efficiencies must be identified

I issued certificates confirming that the audit of the accounts for the Police & Crime Commissioner for Gwent and the Chief Constable of Gwent Police have been completed on 31 July 2018

I received no electors' questions or objections in relation to the 2017-18 audit. Having given an audit opinion on the financial statements and concluded on the arrangements to secure economy, efficiency and effectiveness in its use of resources, I was able to certify that the audit of both the Police & Crime Commissioner for Gwent and the Chief Constable of Gwent Police was complete when I issued my audit opinion.

Due to delays and the challenges experienced during the financial statements audit, the financial audit fee for 2017-18 has exceeded the estimated audit fee set out in the Annual Audit Plan by £15,000.

Yours sincerely



Ann-Marie Harkin
Engagement Director
For and on behalf of the Auditor General for Wales

Appendix 1

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

Exhibit 1: 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	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?

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