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Dear Nigel and Darren

Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police 2018/19

Audit enquiries to those charged with governance and management

As in previous years, you will be aware that I am responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In accordance with the requirements set out in International Standards on Auditing (ISAs), I am writing to you to formally seek your documented consideration and understanding on a number of governance areas that impact on my audit of your financial statements. These considerations are relevant to both the management of the offices of the Police and Crime Commissioner and Chief and 'those charged with governance'.

I have set out below the areas of governance on which I am seeking your views.

1. Management processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
 - identifying and responding to risks of fraud in the organisation;
 - communication to employees of views on business practice and ethical behaviour; and
 - communication to those charged with governance of the processes for identifying and responding to fraud.
2. Management's awareness of any actual or alleged instances of fraud.
3. How management gain assurance that all relevant laws and regulations have been complied with.
4. Whether there is any potential litigation or claims that would affect the financial statements.
5. Management processes to identify, authorise, approve, account for and disclose related party transactions and relationships.

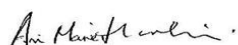
The information you provide will inform our understanding of the Police and Crime Commissioner and Chief Constable's arrangements and business processes and support our work in providing an audit opinion on their 2018-19 financial statements.

I would be grateful if you could complete the attached table in [Appendices 1, 2 and 3](#), which should be formally considered and communicated to us on behalf of both management and 'those charged with governance'. As corporation soles, it is the Police and Crime Commissioner and Chief Constable that are 'those charged with governance'. However, as the Joint Audit Committee reviews the accounts and recommends approval (or not) to 'those charged with governance', this response should be considered by the Committee.

Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance by 30th April 2019.

If you have any queries, please contact Tracy Veale on 02920 320596 or by e-mail on tracy.veale@audit.wales

Yours sincerely



Ann-Marie Harkin
Engagement Director

Appendix 1

Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and 'those charged with governance', which for Gwent Police is the Police and Crime Commissioner and the Chief Constable. Management, with the oversight of the Police and Crime Commissioner and the Chief Constable, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how the Police and Crime Commissioner and Chief Constable exercises oversight of management's processes. We are also required to make enquiries of both management and the Police and Crime Commissioner and the Chief Constable as to their knowledge of any actual, suspected or alleged fraud, for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

Enquiries of management - in relation to fraud		
Question	2017-18 Response	2018-19 Response
1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?	<p>Management's assessment of the risk of material misstatement of the Financial Statements due to Fraud would be low. The principle reasons are:</p> <ul style="list-style-type: none"> • Adherence to Nolan Principles • Manual of Corporate Governance controls • Anti-Bribery and Corruption Policy and Procedure • Whistle Blowing Procedure • Registers of gifts and hospitality • Registers of Business Interests • Section 151 Officers • OPCC Executive Team • Chief Officer Team • Strategy & Performance Board • Staff vetting arrangements • High materiality limits • Computerised Purchase ordering • Regular budget monitoring to COT and locally • Joint Internal Audit - Targeted Audit • Transparency – publication of expenditure over £5k • HMIC work on integrity in policing • Independent professional procurement support • Separation of duties / input / authorising 	<p>Transparency – expenditure over £500 is published on the Commissioner's website. No other changes.</p>

	<ul style="list-style-type: none"> Professional Standards / Integrity work <p>However recognise added risk from:</p> <ul style="list-style-type: none"> People leaving / new processes / feelings of disillusionment Greater discretion / freedoms to make local decisions <p>Which are mitigated by monitoring and audit checks.</p>	
2. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?	As above.	As above
3. What arrangements are in place to report fraud issues and risks to the Audit Committee?	Reporting of Fraud (whether suspected or proven) is reported through respective Section 151 officers, with ultimate acknowledgement by the CFO (PCC). By virtue of any fraud investigation requiring an internal audit of the particular area, the audit planning and audit finding of a fraud investigation will be reported to the Joint Audit Committee (JAC). Any subsequent 'tightening' of the associated anti-bribery and corruption policy will also be reported to the JAC.	No change
4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	Considerable work has been undertaken on integrity and ethics in policing over the year as evidenced in the Annual Governance Statement. The College of Policing guidance has been rolled out to officers and the importance of staff 'doing the right thing' for victims and customers has been a key and consistent theme.	An Independent Ethics Committee is in place and has been operating during 2018/19. Staff and officers have been considering and discussing ethical dilemma videos throughout the year. No other changes noted.

5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2018?	No	No
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Enquiries of the Police and Crime Commissioner and Chief Constable – in relation to fraud		
Question	2017-18 Response	2018-19 Response
1. How does the Police and Crime Commissioner and the Chief Constable, exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?	<ul style="list-style-type: none"> • Regular attendance at Joint Audit Committee • Annual review of the Manual of Corporate Governance • Through regular reporting of financial matters to Chief Officer Team and OPCC Executive Board • Professional Standards Update reports presented to Strategy and Performance Board • Briefings on the Internal Audit Planning processes; areas of focus; and if necessary, changes to the plan to accommodate investigation of fraud cases 	No change
2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2018?	No	No

Appendix 2

Matters in relation to laws and regulations

International Standard for Auditing (UK and Ireland) 250 covers auditors' responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of those charged with governance (the Police and Crime Commissioner and the Chief Constable), is responsible for ensuring that the operations of Gwent Police are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements; and
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

What are we required to do?

As part of our risk assessment procedures we are required to make inquiries of management and the (the Police and Crime Commissioner and the Chief Constable) as to whether Gwent Police is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Enquiries of management – in relation to laws and regulations		
Question	2017-18 Response	2018-19 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	<ul style="list-style-type: none"> • Professional CFO roles for PCC and CC • Adherence to Financial Management Code of Practice and related legislation • Roles of: <ul style="list-style-type: none"> ○ Wales Audit Office ○ TIAA ○ TCBC Audit • Ongoing CPD for both CFO roles • Attending national forums such as Police and Crime Commissioners' Treasurers Society (PACCTS) and National Director of Finance/PACCTS conferences • Monitoring Officer Role on OPCC • Joint Legal Services Legal and Compliance role • Legal Advice when required • Staff Training <p>Scrutiny through Strategy & Performance Board, COT and OPCC Executive Board</p>	No change
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2018, or earlier with an ongoing impact on the 2018-19 financial statements?	No	No
3. Are there any potential litigations or claims that would affect the financial statements?	Litigation claims are compiled by Joint Legal Services and on behalf of the Force and by the Monitoring Officer in the PCC:	No change – legal issue noted in 2017/18 is ongoing.

	<ul style="list-style-type: none"> A list of all litigation claims received is maintained and an estimate of liability is included in the accounts as a provision / or reserve. <p>The following legal issues / areas are included in the accounts: Alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015.</p>	
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No	No

Enquiries of the Police and Crime Commissioner and Chief Constable – in relation to laws and regulations		
Question	2017-18 Response	2018-19 Response
1. How does the Police and Crime Commissioner and the Chief Constable, in their role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	<ul style="list-style-type: none"> • CFO role for PCC and CC • Monitoring Officer Role (PCC) • Joint Legal Services • Through Strategy & Performance Board and COT • 'Decision Log' process for PCC 	No change
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	No	No

Appendix 3

Matters in relation to related parties

International Standard for Auditing (UK and Ireland) 550 covers auditors' responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

What are we required to do?

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Enquiries of management – in relation to related parties		
Question	2017-18 Response	2018-19 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"> • the identity of any related parties, including changes from the prior period; • the nature of the relationships with these related parties; and • details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions. 	Confirmed – robust process undertaken and disclosed (where necessary) in the Statements of Account.	No change
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	Individual returns by the officers who can exercise control in either Corporation Sole. The returns disclose not only related party transactions but also a register of business interest. The return also includes the related party transactions and register of business interest of close family members.	No change
Enquiries of the Police and Crime Commissioner and Chief Constable – in relation to related parties		
Question	2017-18 Response	2018-19 Response
<p>1. How does the Police and Crime Commissioner and the Chief Constable, in their role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	As above.	As above

