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

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The team who delivered the work comprised John Herniman, Matthew Coe, Andy Bruce and Dave Burridge.

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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 for Gwent (the Commissioner) and the Chief Constable of Gwent (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, the Commissioner and the Chief Constable and presented them to the 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 Gwent (the Commissioner) and the Chief Constable of Gwent 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 We received the draft financial statements for both the Commissioner and the Chief Constable for the year ended 31 March 2016 on 9 June 2016. This was 21 days earlier than in 2015 and represents very good progress in moving the accounts timetable forward in line with future requirements to bring the production and audit of accounts forward.
- 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 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, clear (unqualified) opinions were given.
Unadjusted misstatements.	One uncorrected misstatement identified. There was an omission of accruals for compulsory redundancy costs of £424,043 agreed before the year-end but paid after the year-end. These costs should have been included in the Commissioner’s and Chief Constable’s 2015-16 accounts. Management did not make the adjustment on the grounds the amount was not material to an understanding of the accounts and these costs will now be reflected in the 2016-17 accounts.
Views about the qualitative aspects of the entity’s accounting practices and financial reporting.	No matters reported.
Matters corresponded upon with management.	2015-16 was the first year that the accounts were required to apply a new accounting standard, IFRS 13 Fair Value. One aspect of this new standard is that the Commissioner’s Non Operational/Surplus Assets, with a net book value of £485,000, should have been valued at fair value at the year-end. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. These

Reporting requirement	Audit findings
	assets were not revalued. Based on assets of a similar nature which have been sold in recent years by the Commissioner, a material difference between the net book value and the fair value was unlikely. Management will be undertaking a full revaluation of all property in 2016-17.
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 I found that the Commissioner sets out his priorities and objectives clearly in the Police and Crime Plan 2013-17. This has been reviewed annually following consultation with key stakeholders including the Chief Constable, residents of Gwent and key public sector partners. The Police and Crime Plan is then underpinned by the Chief Constable's Annual Operational Delivery Plan. In order to review and monitor the implementation of these plans, a Strategy & Performance Board chaired by the Commissioner is in place that provides an appropriate level of scrutiny and challenge.
- 13 The Commissioner has consulted on the priorities for the Police and Crime Plan during 2015-16, as well as on other key decisions such as the 2016-17 Council Tax precept level for policing. The Strategy & Performance Board consider the results of these consultations, which are also published on the Commissioner's website. Published details of key events and meetings attended by the Commissioner indicate a strong level of engagement with partners and the wider public. Alongside this, the Independent Advisory Group helps the Chief Constable to liaise with communities and acts as a critical friend reporting on the impact of policing in communities.
- 14 Operational performance is monitored at various levels throughout the Force by senior officers, and also by the Commissioner via the Strategy & Performance Board noted above. This includes financial performance against budgets and savings plans. In addition to the Strategy & Performance Board, the independent Police and Crime Panel (the Panel) also receives and discusses regular performance and out-turn reports on a wide range of operational issues from the Chief Constable. The Panel also scrutinises and comments on strategy papers produced by the Commissioner, including the annual update to the Police and Crime Plan.
- 15 The systems of internal control and governance have continued to develop in 2015-16. The Manual of Corporate Governance that sets out the Commissioner's legal and governance frameworks to support his functions, and the Principles of Relationship between the Commissioner and the Chief Constable, have been reviewed and updated. A new, independent Ethics Committee was also established in April 2015 to provide advice and guidance to the Commissioner and Chief Constable on ethical issues. Risk management is embedded throughout the Force and the Commissioner's office, with a Joint Risk Managements Strategy that is scrutinised and approved annually.
- 16 The Joint Audit Committee formally met five 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 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.
- 18 My 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.
- 19 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 Ethics Committee needs to be developed further with more formal recording of minutes and decision making.
- 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 Gwent 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

- 21 The Commissioner and Chief Constable have continued to operate within their revenue budget in 2015-16. Against a revenue budget requirement for the year of £117.8 million, the Commissioner achieved an underspend of £6.0 million. Of the £6.0 million underspend, £4.3 million arose through recurrent savings through the acceleration of efficiency schemes via the Force's 'Staying Ahead' Programme and the remaining £1.7 million resulted from non-recurrent savings from areas including demand-led budgets. The £6.0 million was transferred to the Police Fund General Reserve and earmarked reserves to meet future operational changes such as the replacement of Gwent Police headquarters.
- 22 The Strategy & Performance Board, 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. The reported position at 31 July 2016 showed that savings of £1,493,000

had been delivered for the first four months of the 2016/17 financial year, and the Commissioner was on course to deliver the £4.4 million of efficiency schemes required in 2016-17.

Gwent's Police and Crime Commissioner is helping co-ordinate activities with partners but complex working arrangements and poor alignment of plans are creating 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 formed part of a national study, undertaken at an all Wales (Welsh Government), regional (Commissioner area) and local (local authority/Community Safety Partnership) levels.
- 24 The Auditor 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. The national report [Community safety in Wales](#) is available on our website.
- 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 **Gwent's Police and Crime Commissioner is helping co-ordinate activities with partners but complex working arrangements and poor alignment of plans are creating barriers to improving community safety. We reached this conclusion because:**
- the Commissioner's leadership on community safety has led to the formation of two important forums and contributed to good commitment to joint working;
 - the Commissioner is revising the latest policing plan, which incorporates community safety areas to better align and integrate priorities with national Welsh Government aims and local authority activity;
 - although in an early stage of development, the Commissioner and his partners are working more effectively together to deliver their community safety priorities;
 - the Commissioner has established appropriate systems to distribute community safety funding and promotes opportunities to assist charities, voluntary organisations and community groups involved in activities that have a positive impact on the communities in Gwent; and

- because of the complex policy and legislative framework for community safety it is difficult for partnerships to consistently work together to manage improvement.

- 26 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.
- 27 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

- 28 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.
- 29 I estimated in the Audit Plan 2016 that the 2015-16 audit fee would be £85,660. 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	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.

Exhibit 3: Significant audit risks

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.
The financial statements need to comply with International Financial Reporting Standards (IFRS). The Commissioner and Chief Constable and their staff must: <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. 	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. We will also agree improvements to the methodology and working papers supporting the financial statements, where necessary.	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.
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.
Work is ongoing to identify jointly-controlled operations which require disclosure under the Code and audit	My audit team will liaise with management and offer assistance during this work, where required, to ensure that all jointly-controlled	Appropriate adjustments were made to the 2015-16 financial statements to reflect the calculated share of benefit

Significant audit risk	Proposed audit response	Work done and outcome
<p>regulations. This work will require co-ordination with other Welsh forces to determine agreed outcomes and consistency across Wales.</p>	<p>operations are identified and reported upon accurately in the financial statements.</p>	<p>from collaborative operations. Further work with other Welsh forces is needed to provide this information earlier for 2016-17.</p>
<p>There have been a number of changes to system controls and key personnel within the 2015-16 financial year, including changes to both the finance team and Commissioner's office, a voluntary exit scheme for Police Officers and an amendment to the useful life of the Police Headquarters. In addition, early work is being undertaken by management to enable the faster closing and production of the draft financial statements this year.</p>	<p>My audit team will discuss the implications of these issues and agree any required changes to the accounting and disclosures within the financial statements with key personnel as part of our interim work.</p>	<p>The issues were discussed and agreed, and the draft financial statements for 2015-16 were produced on 9 June 2016 - 21 days earlier than in 2015. One uncorrected misstatement related to the recognition of compulsory redundancy payments was noted as part of the audit.</p>

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