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Dear Darren and Nigel

Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police 2017/18

Matters arising from our 2017-18 audit

We completed our audit of the financial statements of the Police and Crime Commissioner for Gwent and the Chief Constable for Gwent Police and reported our findings required by International Auditing Standard (ISA260) to those charged with governance in our 'Report on Financial Statements' Report. This report was presented to the July 2018 JAC meeting.

In addition to the findings already reported, we now bring to your attention other matters arising from this year's audit for your consideration in the Action Plan attached at **Appendix 1** to this letter. These matters have been discussed with finance colleagues at a meeting held on 11 September 2018. We have also followed up on progress of prior-year recommendations attached at **Appendix 2**.

We look forward to working with your team to ensure that these issues are addressed in order to improve the production of next year's accounts and the audit process in line with the Faster Closing agenda.

Yours sincerely

Tracy Veale
Audit Manager

Appendix 1 - Matters arising from the audit of the Police and Crime Commissioner (PCC) for Gwent's and Chief Constable (CC) for Gwent's 2017-18

Exhibit 1: final audit - as per ISA 260

Detail	For management to consider	Management Response
Accounts quality and submission		
<p>The draft accounts were not appropriately formatted and incomplete due to the first time use of CIPFA's Big Red Button. The draft accounts were also submitted to us after the agreed timetable. It was evident that the draft accounts had not been through a robust quality review process before being submitted to us for audit.</p> <p>In addition, the draft accounts contained, and the final amended accounts still contained, numerous rounding errors. We understand that these rounding errors were created by the Big Red Button, and despite many attempts to rectify them, the Finance Team have been unable to do so.</p>	<p>Finance need to reconsider their close-down plan following the issues encountered this year ensuring enough time is built in for a robust quality review process before the accounts are submitted to us for audit.</p>	<p>A full review and update of the closure plan will be completed before 31 December 2018.</p> <p>Sufficient time will be included in the plan for a robust quality assurance review of the draft financial statements by senior managers.</p> <p>Target Date: 31 December 2018 Status: Ongoing</p>

Detail	For management to consider	Management Response
Working papers and staff availability		
<p>Working papers were of a good standard and, overall, provided a good audit trail to source information. However, the working papers were not submitted to us in line with our agreed deliverables schedule but on a request basis.</p> <p>In addition, we were not made fully aware of all annual leave and other work commitments of the Finance Team. As a result, we could not effectively plan our work to ensure that the required finance officers were available when needed. Further problems arose due to the fact that audit queries could only be resolved by the staff responsible for individual account areas. This led to further delays in receiving working papers and information when staff were not available.</p>	<p>The Wales Audit Office will look to revisit our deliverables schedule for the 2018-19 audit process building in any scope for auditing account areas earlier following discussions with Finance.</p> <p>Finance need to ensure they sign up and deliver on the working paper deadlines as agreed.</p> <p>In addition, Finance need to ensure every effort is made that key finance staff are available during our 'tight audit window' and an accurate availability schedule of finance staff is provided on the outset of the audit to allow us to plan our work around this.</p>	<p>We will work with the Wales Audit Office to ensure the deliverables' schedule reflects an agreed list of working papers, as well as the key contacts for individual areas and their availability during the accounts/audit process.</p> <p>Target Date: 31 January 2019</p> <p>Status: Ongoing</p>
Finance Staff Training		
<p>Finance staff had not received the appropriate level of training regarding the new financial system. A number of difficulties arose as part of the implementation of the new Agresso Business World (ABW) finance system during the year, for example, relating to the scheme of delegation and the processing of invoices. Finance staff involved in the original implementation of ABW have since left and this loss of knowledge has put additional pressure on the Finance Team. Inexperience amongst the remaining Finance Team was evident when reports to enable reconciliations were not run at the appropriate time and could not be re-worked due to the live nature of the system.</p> <p>In addition, Finance staff had not received the appropriate level of training regarding the use of CIPFA's Big Red Button software. CIPFA's Big Red Button software was used to compile the accounts for the first time this year. The use of the</p>	<p>Finance staff need to ensure they are adequately trained in respect of new systems notably ABW and CIPFA's BRB to aid future year's accounts production.</p> <p>Desk instructions should also be updated following implementation of new systems.</p>	<p>PwC are currently mapping the processes within the finance systems and we will be supplementing these process maps with additional notes where necessary. All finance staff will be briefed on the accounts close-down process and timetable for 2019/20.</p> <p>This briefing will include the working papers and reports required from BW and the BRB to support the production of the accounts.</p>

Detail	For management to consider	Management Response
<p>new Big Red Button software to compile the accounts resulted in difficulties as the Finance Team were unfamiliar with the software and, in several instances, had to rely on CIPFA consultants to provide answers. This meant that audit queries took longer to resolve than usual. These issues should reduce next year as the finance team become more experienced with the finance system and the accounts compilation process.</p>		<p>Target Date: 31 March 2018 Status: Ongoing</p>
Control Account Reconciliations		
<p>In our June 2018 Audit Update Briefing to Joint Audit Committee members, which was based on our March 2018 audit visit, we highlighted that control account reconciliations had not been completed during the year. Although the Finance Team were able to complete the accounts receivable reconciliations retrospectively, this was not possible for the year-end accounts payable reconciliation. The new finance system is a live system and no report was run as at 31 March 2018 to enable the accounts payable reconciliation to take place. As a result, we undertook additional testing of year-end transactions to ensure the creditor balances within the draft financial statements were not materially misstated.</p> <p>Control account reconciliations were also not printed and signed off by preparer or by reviewer, therefore little evidence that they had in fact been reviewed by the Head of Finance.</p>	<p>It is important going forward that the finance team implement robust internal controls to ensure that monthly reconciliations are completed promptly and thoroughly to give assurance over year-end balances. Finance need to ensure suitable evidence of timely review of control account reconciliations is implemented.</p>	<p>The monthly task plan list includes a sheet to track the production and review of control account reconciliations throughout the year. This sheet will be updated at each month end to record that reconciliations are taking place and have been reviewed.</p> <p>Target Date: 30 September 2018 Status: Completed</p>

Detail	For management to consider	Management Response
Bank Reconciliations		
Bank reconciliations had not been completed as at 31 March 2018. No cashbook report was run as at 31 March 2018. As a result, the Finance Team were unable to complete a full year-end bank reconciliation between the bank statement, the cashbook and the general ledger. However, whilst the Finance Team were able to complete a reconciliation between the ledger and the bank statement, unreconciled items amounting to £13,105 remained unsupported.	It is important going forward that the finance team implement robust internal controls to ensure that monthly reconciliations are completed promptly and thoroughly to give assurance over year-end balances. Finance need to ensure suitable evidence of review of the bank reconciliation is implemented.	The monthly task plan list (above) includes bank reconciliations. Target Date: 30 September 2018 Status: Completed

Exhibit 2: final audit – other findings:

Detail	For management to consider	Management Response
Mapping and Chart of accounts		
A large number of amendments in the financial statements were in respect of classification issues which arose due to incorrect mapping of the trial balance. In addition, the introduction of the Big Red Button highlighted weaknesses with Gwent Police's Chart of Accounts.	Finance should undertake a review of their mapping ahead of the 2018-19 audit. In addition, they should also look to eliminate weaknesses in their Chart of Accounts with additional Trial balance codes being created for the 2018-19 financial year. The Finance Team should consider whether there is scope to produce month 9 accounts which would help to identify problems before year end.	This will be carried out before 31 March 2019 as part of the year-end closure process. Target Date: 31 March 2019 Status: Ongoing
Provisions		
The year-end listing of provisions was provided by the legal team. However, audit testing identified that one of the provisions tested had been closed before year-end and therefore should not have been included on the year-end listing.	Joint Legal Services need to ensure they review this listing to include only 'true' year-end provisions.	Joint Legal Services will be briefed on the requirements for the accounts as part of the year-end closure process.

Detail	For management to consider	Management Response
Ledger corrections		
<p>During our audit, we identified a couple of ledger corrections that were needed, although the accounts correctly reflected these:</p> <ul style="list-style-type: none"> • The write-off of impairment and depreciation on the decommissioning/disposal of computer hardware had been posted to the incorrect codes. • The balances on two AHFS codes were incorrect. The incorrect balances were on codes: 50762 - AHFS Opening balances and 50256 Cumulative Depreciation - AHFS which showed balances of £4,384,401 and -£2,035,055 respectively. 	<p>Finance should ensure corrections are made in the ledger so that prior-year comparatives are accurately reflected in the 2018-19 accounts.</p>	<p>These two corrections have been actioned. Target Date: 30 September 2018 Status: Completed</p>
Chief Finance Officer secondment		
<p>The Chief Finance Officer has undertaken a part-time secondment to South Wales Police during 2017-18, however no disclosure was included in the draft financial statements for this in terms of the Remuneration and Related Party Notes and amendments were required late in the audit process.</p>	<p>Finance should ensure all known activities are given consideration and included within the draft financial statements to avoid late amendments in the audit process.</p>	<p>We will agree a list of individuals requiring related party returns with the Wales Audit Office as part of the closure process and agree any additional disclosures required before year-end. Target Date: 31 January 2019 Status: Ongoing</p>

Detail	For management to consider	Management Response
FIRMS system administrators		
At the time of the audit, there were 23 members of staff with FIRMS system admin access. This seems to be a high number of staff having admin access rights within the system.	<p>The FIRMS team should review these rights, and consider:</p> <ul style="list-style-type: none"> • whether they are appropriate to meet the business need; and • whether Gwent Police are happy to accept any risks associated with having a high number of staff with full administrative access rights to the system. <p>Having high numbers of users with system admin access presents an increased risk to system security and inappropriate system use.</p>	<p>Access levels will be considered and amended where necessary on an ongoing basis.</p> <p>Target Date: 30 November 2018</p> <p>Status: Completed</p>

Exhibit 3: Interim audit:

Detail	For management to consider	Management Response
Journals		
ABW includes a feature to allow supporting schedules for journals raised to be saved in the system with the journal. This feature however is not currently used. Staff store journal workings within a series of folders on the Gwent Police server. Our audit experience has found that it is more time consuming obtaining this information from the Gwent Police server rather than ABW.	Finance should ensure all supporting documentation to journals raised is stored in ABW, in order to improve the audit trail.	<p>This is now in place.</p> <p>Target Date: 31 March 2019</p> <p>Status: Completed</p>

Appendix 2 – Progress of prior year recommendations

Detail	For management to consider	Management Response	Status as at 2017-18 audit
Related Party Declarations			
<p>The instructions and template-related party return sent out to senior officers and staff for the production of the related-party note in the PCC and CC's accounts is not conducive to produce the information needed to disclose all related party transactions. As a result, additional disclosures had to be added to the financial statements during the audit. Specifically:</p> <ul style="list-style-type: none"> the memorandum sent to staff and officers states the following assumption: 'I suspect you will not have any relevant activity'; and the format of the return does not make it clear that all relationships should be disclosed irrespective of whether the individual is aware of transactions between Gwent PCC and/or CC with those bodies. 	<p>The instructions and pro-forma return should be amended to make it clear that all related party relationships need to be included and reference to the expectation that individuals will not have any relevant activity is removed.</p>	<p>Form revised ahead of the 2017/18 financial accounts process.</p>	<p>Completed The Wales Audit Office provided a good practice related party return as part of our interim work. Our testing in 2017-18 confirmed the related party return had been amended.</p>

Detail	For management to consider	Management Response	Status as at 2017-18 audit
Format of Expenditure and Funding Analysis			
<p>The format of the Expenditure and Funding Analysis (EFA) Note in the PCC's Accounts is not fully compliant with the CIPFA Code of Practice. Further changes may also be required in 2017-18 to reflect any change in the new reporting structure. Specifically:</p> <ul style="list-style-type: none"> • the Code only requires one column of adjustments between the EFA figures and the Comprehensive Income and Expenditure statements (CIES), rather than the two currently shown in the PCC's 2016-17 account. Adjustments between the two sets of figures should only be: <ul style="list-style-type: none"> – the differences between the regulatory and accounting bases of reporting. – transfers between separate lines in the CIES/EFA. These adjustments should therefore balance to zero. <p>The Code requires the analysis of income and expenditure in the EFA to match the internal reporting structures of the organisation. We were informed early in the audit that this reporting structure would change in 2017-18 following the migration to Agresso Business World.</p>	<ul style="list-style-type: none"> • The 2016-17 EFA should be reformatted to fully comply with the Code of Practice. • If the internal reporting structures have changed or you plan to change the format of the EFA following the migration to Agresso Business World, then the 2016-17 EFA also needs to be restated to match the new reporting structure and the 2017-18 EFA and CIES to be prepared in line with this new reporting structure. 	<p>The format will be changed in line with the code.</p> <p>Planning for the financial year 2017/18 will consider the implications of reformatting.</p>	<p>Completed</p> <p>BRB has addressed this issue in ensuring the disclosure is CIPFA compliant.</p>

Detail	For management to consider	Management Response	Status as at 2017-18 audit
Clarity of Notes to the accounts			
<p>Improvements are needed regarding the format of the following notes to improve clarity and ensure full compliance with the CIPFA Code of Practice:</p> <ul style="list-style-type: none"> The Related Party Note states: 'During the year no material transactions between the Chief Constable and the Police and Crime Panel Members or parties related to them have been identified.' As Panel Members are not required to complete a related party return we cannot be certain that this statement is correct. The format of the Financial Instruments Note is difficult to follow and therefore difficult to agree to figures reported in the Balance Sheet. The Provisions Note does not adequately disclose the in-year movements of the provisions as required by the CIPFA Code of Practice. <p>The provision for doubtful debts is incorrectly shown as a provision rather than the impairment of outstanding debts.</p>	<ul style="list-style-type: none"> The statement for related party transactions for Panel Members should be revisited and removed, unless a decision is taken to request Crime Panel Members to complete a related party return. The Financial Instruments Note should be revisited. The requirements of the Code should be reviewed and compared to other Welsh Police Force's equivalent notes. The Provisions Note should be expanded to fully comply with the Code of Practice. The bad debt provision should be netted off against debts instead of being shown as a provision. 	<p>This will be determined by the OPCC and discussed with the Panel.</p> <p>This will be completed as part of the audit planning for 2017/18 accounts.</p> <p>Agreed.</p> <p>Agreed.</p>	<p>Disclosures amended for 2017-18</p> <p>Related Party note – similar wording was used in 2017-18 which was removed as part of our audit work.</p> <p>Completed</p> <p>Financial Instruments & Provisions - BRB has addressed this issue in ensuring the disclosure is CIPFA compliant.</p> <p>Completed</p> <p>Bad debts are still shown in the Provision note for 2017-18. This follows the BRB accounts structure therefore accepted as compliant in 2017-18.</p>

Detail	For management to consider	Management Response	Status as at 2017-18 audit
Fixed Assets			
<p>Last year's revaluation exercise of the Land and Buildings was not correctly recorded in the Fixed Asset Register. As in the initial draft account, accumulated depreciation was not written back to zero following the revaluation. Whilst an adjustment was made to the accounts, no adjustment was made to the Fixed Asset Register.</p>	<p>The Fixed Asset Register should be updated to correctly record the carrying valuation and accumulated depreciation for each asset.</p>	<p>This will be completed in advance of the annual accounts process.</p>	<p>Completed We did not identify any further issues during our 2017-18 audit.</p>
<p>There was an inconsistent view between the Finance and Estates teams on the status of two assets that were part of the valuation exercise:</p> <ul style="list-style-type: none"> • The Police Welfare Retreat was valued as a surplus asset and included in the asset register as such. However, the view of the Estate's team was that it is still in use and therefore not a surplus asset. • The Gaer Police Box was recorded as an operational asset by the Finance team within the Fixed Asset Register. However, it was valued as a Surplus Asset by the valuers, based on advice from the Estates team. <p>Although we note that the value of these assets is not significant, these should have been agreed prior to their revaluation.</p>	<p>The Estates and Finance teams should review the status of all assets at the year-end to ensure a consistent understanding of the status of assets so that all assets are valued appropriately.</p>	<p>This will be part of the planning process for the annual accounts. A specific review of these two assets has been undertaken in 2017/18 to aid this process.</p>	<p>Ongoing Our audit testing in 2017-18 confirmed:</p> <ul style="list-style-type: none"> • the Police Welfare Retreat currently sits in the surplus assets FAR; and • the Gaer Police Box currently sits on the Buildings FAR. <p>Following implementation of the new FA module, we understand that all data will be cleansed following transfer. We will review the data cleanse as part of our 2018-19 planning audit work.</p>

Detail	For management to consider	Management Response	Status as at 2017-18 audit
From our review of the Fixed Assets Register, we noted that 50% of vehicles, 70% of plant and machinery and 69% of computer equipment have a net book value of zero.	Finance should consider whether the asset lives for these assets are appropriate.	Consideration will be given, under the Asset Management Strategy, in light of the Estate Strategy and also the development of the new ICT technology.	Ongoing During our 2017-18 audit, we noted that assets with NBV were still present in the FAR. We understand that this issue will be addressed as part of the data cleanse and will examine this as part of the 2018-19 audit. We will also review whether there have been any changes to the estimated useful lives of asset groups.
We noted some discrepancies between the Vehicles section of the Fixed Assets Register and the Vehicles section of the Disposals Register which resulted in adjustments to the account for assets disposed of in year.	The Disposals Register should be compared against the Fixed Asset Register to ensure that the cut off for the disposal of assets is correct.	This shall be completed as part of the audit planning process.	Completed We did not find any further instances of this as part of our 2017-18 work.
Lack of evidence to support PCC approval			
Our sample of payments included the costs and expenses of a Legally Qualified Chair for a Police Tribunal who was paid at the daily rate of £1,260. The maximum daily rate limit for case preparation is £750, however, this can be exceeded with approval from the PCC. The OPCC could not provide evidence that this approval had taken place.	The OPCC should retain evidence of all approvals for exceeding the maximum daily rate for Legally Qualified Chairs.	Evidence of decisions will be recorded.	Completed We did not find any further instances during our 2017-18 audit work.

Detail	For management to consider	Management Response	Status as at 2017-18 audit
Changes in Directorship of GIFT Ltd			
<p>Following the 2015-16 audit, we reported that the PCC should inform Companies House of the changes to the Directorship and status of GIFT (Gwent) Limited. From a review of the Companies House website during the 2016-17 audit, we noted that the details of the Directorship have been updated, however, they appear not have been informed of the change in membership, ie the departure of the University of South Wales and the new Articles of Association.</p>	<p>If not already undertaken, Companies House should be informed of these changes. Advice on the GOV.UK website states that this should be done within 15 days of the approval from members to change the Articles.</p>	<p>This is now up to date.</p>	<p>Completed Changes have now been made as required.</p>