



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

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Annual Audit Letter 2007/2008

**Gwent Police Authority**

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## **Status of this report**

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## Summary

1. This Annual Audit Letter to members of the Gwent Police Authority (the Authority) summarises the conclusions from my 2007/2008 audit. It reports for Authority members the significant issues arising from my audit, together with my comments on other current issues. The work reported upon in the Annual Audit Letter was set out in the agreed 2007/2008 Audit Strategy.
2. More detail on the specific aspects of my audit can be found in the separate reports that have been issued during the year. These reports are discussed and agreed with officers and presented to the Audit and Resources Committee. The reports issued are shown in Appendix 3.
3. A number of references are made within this Letter to guidance and documentation issued by the Auditor General, including the Code of Audit and Inspection Practice (the Code). This was relevant to the whole of the audit year and refers to the Statement of Responsibilities of Auditors and Inspectors and of Audited and Inspected Bodies summarising the key responsibilities of auditors. My audit has been conducted in accordance with the principles set out in that Statement. What I say about the results of my audit should be viewed in the context of that more formal background.
4. I adopt a risk-based approach to planning the audit, and my audit work has focused on your significant financial and operational risks that are relevant to my audit responsibilities. The audit work is structured around the key elements of my responsibilities as set out in the Code.
5. From my financial audit work I have concluded that the Authority's resources were, in all material respects, properly used and accounted for in 2007/2008:
  - the Authority's accounts for 2007/2008 were properly prepared and materially accurate;
  - the Authority met its key financial targets for 2007/2008;
  - the Authority had effective financial management arrangements in place; and
  - the Authority's significant financial systems were fit for purpose.
6. The Authority had proper arrangements to help it deliver efficient, economical and effective services:
  - the Authority had proper arrangements in 2007/2008 to help it achieve economy, efficiency and effectiveness in its use of resources; and
  - performance audit work supports my conclusion about the arrangements to secure efficient, economical and effective services.
7. This Letter has been agreed with the Chief Executive, Treasurer and the Director of Finance and Administration. The Letter will be presented to the Audit and Resources Committee on 18 December 2008 and a copy will be provided to every member of the Authority.

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8. I aim to deliver a high standard of audit which makes a positive and practical contribution and supports the Authority's own agenda. I recognise the value of your co-operation and support in achieving this aim, and would like to express my appreciation for the assistance and co-operation provided during the course of the audit.

Anthony Barrett  
Appointed Auditor

Date:

### **Gwent Police Authority's resources, in all material respects, were properly used and accounted for**

9. The financial statements are an essential means by which the Authority accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.
10. As the Authority's external auditor, I am required to audit the financial statements and to issue an auditor's report which included an opinion on whether the financial statements present a true and fair view. Our financial audit work covered the following key areas:
  - financial statements (or accounts);
  - financial health;
  - financial management; and
  - financial systems.

### **Gwent Police Authority's 2007/2008 accounts were properly prepared and materially accurate**

11. The Authority produced and approved its draft financial statements within the statutory deadline of 30 June 2008. The Authority's supporting working papers were well prepared which assisted the completion of my audit.
12. I am required by International Standard on Auditing (ISA) 260 to report issues arising from my work to 'those charged with governance' before I issue my audit opinion on the accounts.
13. My audit manager reported these issues to the Audit and Resources Committee on 11 September 2008. The key issues are set out in Exhibit 1.

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**Exhibit 1: ISA 260 reporting requirements**

Reporting requirement	Auditor's response
Expected modifications to the auditor's report.	No modifications to the auditor's report.
Unadjusted misstatements.	There were no unadjusted misstatements. Some adjustments were made following our audit but these were not material.
Material weaknesses in the accounting and internal control systems identified during the audit.	No matters arose.
Views about the qualitative aspects of the entity's accounting practices and financial reporting.	No matters arose.
Matters specifically required by other auditing standards to be communicated to those charged with governance.	No matters arose.
Any other relevant matters relating to the audit.	No matters arose.

14. On 30 September I issued an unqualified opinion on the Authority's financial statements. I am pleased to acknowledge the effort and work in meeting the requirements and new disclosures required by the Statement of Recommended Practice on Local Authority Accounting 2007.
15. We did not identify any significant issues from our audit of the Authority's Whole of Government Accounts return.

### **Gwent Police Authority met its key financial targets for 2007/2008**

16. I am responsible for assessing whether the Authority has put in place adequate arrangements to monitor, control and report on its financial standing. My audit was based on the review of the following areas:
  - setting a balanced budget and capital programme;
  - financial monitoring and reporting;
  - meeting financial targets; and
  - financial reserves.
17. My auditors examined budgetary reports and procedures and I am satisfied that suitable arrangements are in place. The Authority's revenue and capital budgets cover all relevant areas of income and expenditure and are based on realistic assumptions. The Authority also has in place sound arrangements for financial monitoring and reporting that should ensure that any potential material misstatements and variances will be identified.

18. The Authority has a good track record of operating within its revenue budget and ended 2007/2008 with a small underspend. The Authority has continued to receive regular reports from the Treasurer and Director of Finance and Administration on expenditure and position against budget.
19. More recently, the Treasurer and Director of Finance and Administration have identified that the Authority faces a challenging financial environment going forward, and they have estimated a potential financial shortfall by the end of 2010/2011 of between £11.5 million and £14.5 million. The Authority is in the process of identifying and implementing specific measures to bring projected expenditure into line with expected resources in response to the 'Staying Ahead 2011' review.
20. Members and officers continue to review reserves annually to ensure that the reasons they were established remain valid and that the amount reserved is based on realistic assumptions of need. Exhibit 2 identifies that as at 31 March 2008 the Authority had some £30.6 million in cash-backed, earmarked and general reserves. Approximately £23.8 million of the reserves were held against known commitments, leaving £6.8 million to cover working capital and contingencies. Management considers this level of the general Police Fund to be reasonable for a police authority with a budget requirement of £120 million. Cash-backed reserves increased by £0.6 million over the year, reflecting cautious financial management prior to the detailed findings of the 2011 Review.

**Exhibit 2: The Authority's cash-backed earmarked and general reserves**

	<b>31 March 2007 (restated) £'000</b>	<b>31 March 2008 £'000</b>
Capital earmarked	1,054	515
Revenue earmarked	23,296	23,255
Police fund	5,635	6,795
<b>Total</b>	<b>29,985</b>	<b>30,565</b>

*Source: Gwent Police Authority Audited Accounts 2007/2008*

21. The Authority should continue to review the balances held to ensure they remain appropriate and that their proposed use is factored into the future financial budgets. As part of this process it remains important that adequate evidence is maintained to support the basis of the amounts held as earmarked revenue reserves.
22. The Actuary assessed the Authority's accrued pension liabilities (Police Pension Scheme and Local Government Pension Scheme) as £655 million at 31 March 2008 compared with £743.6 million last year. The main reason for the £88.6 million decrease in the deficit is a change in the Actuary's assumptions used to estimate liabilities. The total liability has a significant technical accounting impact on the net worth of the Authority as recorded in its Balance Sheet.

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23. After the financial statements were signed on 30 September 2008, global economic problems resulted in the collapse of a number of Icelandic banks in October 2008. At the time of the collapse the Authority had total funds invested with these banks and their UK subsidiaries of £1 million, and which had been invested in line with approved investment policies that took account of independent advice from investment rating specialists. It is currently unclear whether these deposits will be recoverable and management have already taken steps to strengthen investment policies further. We will continue to review this situation with management as part of the 2008/2009 audit.

### **Gwent Police Authority had effective financial management arrangements in place**

24. To demonstrate financial stewardship, the Authority needs to ensure effective financial management including:
- effective internal financial controls, such as robust standing orders and financial regulations, strong budgetary control and effective Internal Audit;
  - recognised standards of financial conduct;
  - appropriate arrangements to ensure that the Authority only enters into transactions where there is specific legal provision for it to do so; and
  - effective arrangements to prevent and detect fraud and corruption.
25. My review of these areas identified:
- that the arrangements to maintain the systems of internal control remain effective;
  - as in previous years, Internal Audit has met the required professional standards and our planned reliance on their work has therefore been possible;
  - the arrangements for ensuring that the Authority only enters into transactions where there is specific provision for it to do so were found to be in place and had continued to operate effectively; and
  - as in previous years, the ethical framework of the Authority was found to be operating effectively together with the arrangements for preventing and detecting fraud and corruption.
26. I have therefore concluded that effective financial management arrangements are in place. There are some minor areas for improvement which have been reported and appropriate actions are already being considered and implemented by management.

### **Gwent Police Authority made effective use of the National Fraud Initiative**

27. The National Fraud Initiative (NFI) is a biennial computerised data matching exercise conducted across England and Wales. The Audit Commission is responsible for the exercise in England and the Auditor General is responsible for the exercise in Wales through his appointed auditors at local government bodies.

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28. The exercise is designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the 2006/2007 exercise were released in January 2007 to participating bodies including police authorities. The matches have been investigated and resulted in the identification of £4.7 million of fraud and overpayment across Wales. In May 2008, the Auditor General published a national report on the overall findings of the 2006/2007 exercise.
  29. None of the findings of the NFI in 2006/2007 had an impact on the Authority, which took appropriate action to investigate the matches and investigate the results.
  30. Data extractions for the 2008/2009 exercise commenced in October 2008 and authorities should receive data matches in early 2009. The Auditor General is undertaking the 2008/2009 exercise in accordance with the powers set out in the Serious Crime Act 2007, to conduct data matching exercises to assist in the prevention and detection of fraud in Wales. The Auditor General has recently published a Code of Data Matching Practice to help ensure that people's information is protected and processed appropriately during data matching exercises such as the NFI.

### **Gwent Police Authority's significant financial systems remain fit for purpose**

31. My review of the Authority's financial systems has involved documenting the significant financial systems and, where necessary, testing the operation of the internal controls. I have concluded that the Authority's significant financial systems can be relied upon to produce materially correct outputs.

### **Gwent Police Authority had proper arrangements in 2007/2008 to help it achieve efficient, economical and effective services**

32. In examining the Authority's accounts each year, I am required under Section 17(2)(d) of the Public Audit (Wales) Act 2004 to satisfy myself that it has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This requirement is also reflected in the Code.
33. In addition to the audit of the annual accounts, other important sources of assurance have come from performance and inspection work undertaken by Her Majesty's Inspectorate of Constabulary and Internal Audit.
34. The Accountable Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources. For the purposes of my work, I have evaluated the Authority's systems against a number of questions. This approach is set out in Appendix 2. For each question, I consider whether there are any gaps in the arrangements expected to be in place, and the significance of these gaps.

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35. I have concluded that in 2007/2008 the Authority had robust arrangements in place to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. My formal conclusion on the Authority's arrangements for 2007/2008 is set out in Appendix 1. There were no matters arising from my work in this area for 2007/2008 that I wish to draw to your attention.

### **Gwent Police Authority continues to perform well, demonstrating effective arrangements for the management of its resources**

36. I undertook the Police Use of Resources Evaluation (PURE) assessment as part of my responsibility to examine the economy, efficiency and effectiveness of the Authority's use of resources under section 17(2) (d) the Public Audit (Wales) Act 2004, and in accordance with the Auditor General's Code of Audit and Inspection Practice and Standing Guidance for Auditors.
37. The aim of my review is to provide authorities and forces with an assessment of their arrangements for managing their resources, including their public accountability and financial frameworks.
38. The PURE assessment enables auditors to form judgements on the Police Authority and Force arrangements to secure effective use of resources across the five themes of financial reporting, financial management, financial standing, internal control and value for money.
39. The work involved us assessing the procedures and controls in place across the five themes to arrive at an overall judgment score ranging 1 to 4:
- 1 = below minimum requirements;
  - 2 = only at minimum requirements – adequate performance;
  - 3 = consistently above minimum requirements – performing well; and
  - 4 = well above minimum requirements – performing strongly.
40. As set out in Exhibit 3, overall I have scored the Authority 3; in terms of use of resources the Authority performs well and consistently above minimum requirements. It is also worth noting that the assessment criteria in 2007/2008 are more challenging than in 2006/2007 and that the Authority has acted upon the areas of improvement identified in 2006/2007. There has continued to be a strengthening across all arrangements, and in particular within the financial management and internal control themes.

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**Exhibit 3: Police Use of Resources Evaluation**

Area of review	Assessment		
	2005/2006	2006/2007	2007/2008
Financial Reporting	3	3	3
Financial Management	3	3	3
Financial Standing	3	3	3
Internal Control	2	3	3
Value for Money	2	3	3
<b>Overall score</b>	<b>3</b>	<b>3</b>	<b>3</b>

Source: Wales Audit Office - Gwent Police Authority Police Use of Resources Report

## **Performance audit work supports my conclusion about the arrangements to secure efficient, economical and effective services**

### **Recording and management of crime data**

41. During the last three years this review has been undertaken as part of a partnership between the Wales Audit Office, the Audit Commission and the Police and Crime Standards Directorate of the Home Office, and has assessed the data quality and corporate arrangements for crime data recording. The review in 2006/2007 assessed the accuracy of crime recording, management arrangements and the Authority's role as being 'good'. No detailed review has been completed in 2007/2008, although this area will be revisited in late 2008 and will be reported in my next Annual Audit Letter.

### **We are continuing to review Gwent Police Authority's progress on delivering the Making the Connections agenda**

42. *Making the Connections: Delivering Better Services For Wales* (October 2004) sets out the Assembly Government's vision for improved public services for the people of Wales. The vision describes how the Welsh public sector needs to be more responsive, accessible, coherent, effective and efficient in order to improve public services.
43. The Auditor General, as part of the 2006/2007 audit, assessed progress in responding to *Making the Connections* across all areas of the Welsh public sector, including police authorities. In 2007/2008, as a follow-up to this initial work, we examined fleet and vehicle asset management as part of a wider, three-year asset management review across the Welsh public services. We considered if the Welsh public services are collectively ensuring that their approach to fleet and vehicle asset management makes the best use of resources to support improvements in service delivery.

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44. From this detailed review, I concluded that the Authority's approach to fleet management is making good use of resources to support improvements in service delivery although there is scope for greater collaboration on an all-Wales basis:
- the Authority is developing a fleet management strategy which is supported by national and all-Wales police guidance;
  - the Authority has effective fleet management procurement arrangements but with potential for greater joint working;
  - the Authority has effective arrangements to ensure the efficient use of its fleet;
  - the fleet achieves value for money but opportunities exist to further develop ICT and to review in-house fuel provision; and
  - the Authority obtains value for money when disposing of its fleet.
45. We plan to conduct further reviews on buildings management, management of plant, equipment and machinery and management of IT assets in future years.

## Appendix 1

## My conclusion on Gwent Police Authority's arrangements for 2007/2008 for securing economy, efficiency and effectiveness in its use of resources

### Conclusion on Gwent Police Authority's arrangements for the year ended 31 March 2008 for securing economy, efficiency and effectiveness in its use of resources

#### The Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance. The Authority is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities

I have a responsibility under Section 17(2) of the Public Audit Wales Act 2004 to conclude from my audit of the Authority's annual accounts whether I am satisfied as to the existence of the arrangements that it had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. For the purposes of my work in this area, I have assessed 'proper arrangements' as principally comprising an organisation's corporate performance management and financial management arrangements, significant elements of which are defined in Paragraph 48 of the Code.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered as part of this aspect of my work, the effectiveness of the arrangements in place in securing value for money during the year under review.

#### Conclusion

The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2007/2008 accounts to establish, in all significant respects, what arrangements the Authority had in place during the year to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.

In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered, the effectiveness of the arrangements in place in securing value for money during the year under review.

Based on the Authority's Statement of Internal Control and as a result of the work carried out, as described above as part of my audit of the 2007/2008 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. Based on, and limited to, the work carried out I have raised various issues with, and made recommendations to, improve the Authority's arrangements. These matters are further discussed and explained in my Annual Audit Letter to the Authority.

Anthony Barrett  
Appointed Auditor  
November 2008

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## Appendix 2

## My criteria for assessing Gwent Police Authority's arrangements during 2007/2008 for securing economy, efficiency and effectiveness in its use of resources

Corporate performance management and financial management arrangements	Questions on arrangements
<b>Establishing objectives, determining policy and decision making</b>	Has the Authority put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
<b>Meeting the needs of users, stakeholders and the local population</b>	Has the Authority 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 Authority 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 Authority?
<b>Compliance with established policies</b>	Has the Authority 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 Authority put in place arrangements to manage its significant business risks?
<b>Managing financial and other resources</b>	Has the Authority put in place arrangements to evaluate and improve the value for money it achieves in its use of resources?
	Has the Authority put in place arrangements to ensure that its spending matches its available resources?
	Has the Authority 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 Authority?
<b>Proper standards of conduct etc</b>	Has the Authority put in place arrangements for monitoring and scrutinising performance, to identify potential variances against strategic objectives, standards and targets for taking action and, where necessary, reporting to members?
	Has the Authority put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business?

## Appendix 3

**Reports delivered during the 2007/2008 audit**

<b>Report</b>	<b>Date</b>
Audit Strategy	February 2008
Financial Accounts Audit and Report to those Charged with Governance	September 2008
Fleet Management	November 2008
Police Use of Resources	November 2008
Annual Audit Letter	November 2008

## Appendix 4

**Audit fee**

The Audit Strategy for 2007/2008 set out the proposed audit fees totalling £67,269. They were based on the risks identified and an assessment of the work needed to address those risks. They are currently expected to be in line with those set out in the Audit Strategy as summarised below, on the basis that some work remains in progress.

**Analysis of proposed and actual audit fee 2007/2008**

<b>Code area</b>	<b>Planned fee 2007/2008 (£)</b>	<b>Actual fee 2007/2008 (£)</b>
Financial Accounts	45,793	45,793
Performance	21,476	21,476
<b>Total</b>	<b>67,269</b>	<b>67,269</b>



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