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Annual Audit Letter 2009-10

Dyfed Powys Police Authority

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Summary

1. This Annual Audit Letter (the Letter) to members of the Dyfed Powys Police Authority (the Authority) summarises the conclusions from my 2009-10 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 this Letter was set out in the agreed 2009-10 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 Review Committee. The reports issued are shown in Appendix 3.
3. The Audit Strategy for 2009-10 set out the proposed audit fee of £71,918 (plus VAT). My latest estimate of the actual fee for 2009-10, is that a rebate of £1,895 is due to the Authority in relation to our review of the accounting treatment of the Private Finance Initiative (PFI) scheme at Ammanford Police Station.
4. A number of references are made within this Letter to guidance and documentation issued by the Auditor General, including the Code of Audit Practice (the Code). This refers to the Statement of Responsibilities of Auditors and of Audited 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.
5. 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.
6. From my financial audit work I have concluded that the Authority's resources were, in all material respects, properly used and accounted for in 2009-10:
 - the Authority's 2009-10 accounts were properly prepared and materially accurate, but agreement on the treatment of Police Authorities Wales transactions is still to be reached;
 - the Authority met its revenue budget for 2009-10, but faces difficult financial challenges ahead;
 - the Authority had effective financial management arrangements; and
 - the Authority's significant financial systems were fit for purpose.

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7. The Authority has appropriate corporate arrangements in place to support effective use of resources but there are weaknesses in controls within the senior officer relocation policy:
 - the Authority had proper arrangements in 2009-10 to help it achieve economy, efficiency and effectiveness in its use of resources; and
 - there are weaknesses in the controls within the Authority's senior officer relocation policy.
 8. This Letter has been agreed with the Director of Finance and Resources and will be presented to the Audit and Review Committee on 6 December 2010.
 9. 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.

John Herniman
For and on behalf of the Appointed Auditor

Date: November 2010

The Authority’s resources were, in all material respects, properly used and accounted for

- 10. 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.
- 11. As the Authority’s external auditor, I am required to audit the financial statements and to issue an auditor’s report, which includes an opinion on whether the financial statements present fairly the financial position of the Authority at the year-end.

The Authority’s 2009-10 accounts were properly prepared and materially accurate, but agreement on the treatment of Police Authorities Wales transactions is still to be reached

- 12. The Authority produced its draft financial statements by 30 June 2010 and approved them before 30 September 2010, in accordance with the requirements of the Accounts and Audit Regulations (Wales) 2010.
- 13. I am required by International Standard on Auditing (ISA) 260 to report issues arising from my work to ‘those charged with governance’ (the Authority) before I issue my audit opinion on the accounts.
- 14. These issues were reported to the Police Authority on 20 September 2010. The key issues are set out in Exhibit 1.

Exhibit 1: ISA 260 reporting requirements

Reporting requirement	Auditor’s response
Views about the qualitative aspects of the entity’s accounting practices and financial reporting.	The Authority’s accounting practices are generally sound but there is an issue relating to accounting for depreciation that needs to be addressed for future years.
Expected modifications to the auditor’s report.	No modifications to the auditor’s report.
Unadjusted misstatements.	There were no uncorrected misstatements. A number of trivial and non-trivial errors or other required adjustments were identified in the course of the audit or by management, and appropriate amendments were made in all cases.
Material weaknesses in the accounting and internal control systems identified during the audit.	No matters arose.

Reporting requirement	Auditor's response
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.	We identified one matter of governance in that agreement as to how Police Authorities of Wales transactions are accounted for in the financial statements of all police authorities was still to be reached.

15. On 30 September 2010, I issued my opinion on the Authority's accounts. I concluded that the accounts give a true and fair view of the financial position of the Authority as at 31 March 2010 and of its income and expenditure, gains and losses and cash flows for the year then ended.
16. We have recently completed the audit of the Whole of Government Accounts return. The return was well compiled and there were no matters of significance to report.
17. New requirements for financial reporting will shortly be introduced under the International Financial Reporting Standards. We are continuing to work with the Authority to prepare for these changes and other adjustments required under these Standards.

The Authority met its revenue budget for 2009-10, but faces difficult financial challenges ahead

18. The Authority has a good track record of operating within its revenue budget and this continued in 2009-10. Net expenditure amounted to £89.6 million against an original budget of £90.2 million. The surplus of £0.6 million was transferred into reserves.
19. The Authority has continued to receive regular reports from the Director of Finance and Resources on expenditure and position against budget. The report for the period ending 30 July 2010 forecast that the projected outcome for 2010-11 was a surplus of £923,000 against the revised 2010-11 budget.
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 2010 the Authority had some £22.0 million in cash-backed earmarked and general reserves. Cash-backed reserves had reduced by £2.9 million during the year which was as expected.
21. The Comprehensive Spending Review in October 2010 means the Authority has difficult challenges to manage its financial position over the short and medium term. However, the current healthy levels of reserves coupled with the strong arrangements in place for managing the financial position should mean that the Authority is well placed to respond to and tackle these challenges.

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

	31 March 2009 £'000	31 March 2010 £'000
Capital reserve	2,513	1,782
Revenue earmarked	19,966	17,816
General	2,425	2,435
Total	24,904	22,033

Source: Dyfed Powys Police Authority Audited Accounts 2009-10

The Authority had effective financial management arrangements

22. The Authority has a history of having effective financial management processes in place. In particular, I concluded that:
- the arrangements to maintain the systems of internal control were found to be 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 entered 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
 - the ethical framework of the Authority was found to be operating effectively together with the arrangements for preventing and detecting fraud and corruption.
23. I will continue to monitor the financial position of the Authority in 2010-11.

The Authority's significant financial systems were fit for purpose

24. My review of the Authority's financial systems involved documenting the significant financial systems and where necessary either undertaking testing of the operation of internal controls or relying on internal audit work for assurances that controls are effective.
25. I concluded that the Authority's significant financial systems can be relied upon to produce materially correct outputs. There are some minor areas for improvement, which have been discussed with management, and appropriate actions are already being considered and implemented. There are no specific matters I need to bring to the attention of members.

The Authority has appropriate corporate arrangements in place to support effective use of resources but there are weaknesses in controls within the senior officer relocation policy

The Authority had proper arrangements in 2009-10 to help it achieve economy, efficiency and effectiveness in its use of resources

26. 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. My formal conclusion on the Authority's Value for Money (VFM) arrangements for 2009-10 is set out in Appendix 1.
27. 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.
28. The Accountable Officer was 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 detail in Appendix 2. For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.
29. During 2009-10 the annual Police Use of Resources assessment process was abolished by the new coalition government. In previous years the Authority has received positive assessments and the work we have carried out in 2009-10 to reach our opinion on the Authority's VFM arrangements has provided assurance that the sound processes put in place have continued to operate effectively in 2009-10.

There are weaknesses in the controls within the Authority's senior officer relocation policy

30. The Authority has historically struggled to attract a large number of applicants for any advertised senior officer vacancies. It perceives that this is due to the comparatively low salaries paid for these positions as well as the rural nature of the force area.
31. In order to try and encourage a greater number of applicants for these positions a revised Chief Officer Relocation Package policy was approved by the Appointments and Remuneration Sub Committee in May 2009. This policy enhanced the payments available to senior officers.

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32. We have carried out a review of this policy and have concluded that payments made have been in accordance with the policy. However there are a number of areas in which the controls within the policy could be strengthened to provide assurance to the Authority that payments are appropriate and in accordance with the policy.
33. In carrying out this review we have considered the requirements of the 2003 Police regulations and their associated determinations as well as reviewing a number of other Police Authority policies.
34. The specific areas where the policy could be enhanced are as follows:
- The policy does not place a time limit on claiming expenditure. Introducing a time limit for making claims would increase the robustness of the controls and help ensure that only expenditure relating to the actual relocation is claimed.
 - Greater detail should be included in the policy relating to the types of expenditure that can be claimed. This would avoid confusion as to what types of expenditure individuals are entitled to have reimbursed.
 - More clarity is needed to define specific roles and responsibilities within the policy. This should cover who is responsible for approving allowances, as well as certifying and challenging individual items of expenditure.
 - The policy allows for up to £10,000 to be paid as a discretionary allowance for incidental expenses to a chief officer. However the policy states that whilst the officer has to self certify that the allowance has been incurred on expenses in respect to the relocation it also states that specific receipts will not be required. We consider this is a considerable weakness in ensuring that the Authority only reimburses necessary expenditure, it also exposes the Authority to the risk of allegations of inappropriate use of public funds.
 - The policy allows for a senior officer to receive up to a maximum of 55 per cent of their salary as a relocation package. This percentage is significantly higher than the other forces we reviewed and has been enhanced to help attract applicants.
35. The 2003 Police regulation determinations stipulate that removal expenses should only be reimbursed where the expenditure is necessary, reasonable and backed by a receipt and therefore the Authority should review this policy to address the issues raised above and ensure it remains appropriate.

Appendix 1

Conclusion on Dyfed Powys Police Authority's arrangements for the year ended 31 March 2010 for securing economy, efficiency and effectiveness in its use of resources

Accountable Officer's responsibilities	
<p>The Accountable Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources, and to ensure proper stewardship and governance. The Accountable Officer is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.</p>	
Auditor's responsibilities	
<p>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.</p> <p>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.</p>	
Conclusion	
<p>The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2009-10 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.</p> <p>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.</p> <p>Based on the Authority's Annual Governance Statement and as a result of the work carried out, as described above as part of my audit of the 2009-10 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.</p>	
<p>Anthony Barrett Appointed Auditor November 2010</p>	<p>Wales Audit Office 24 Cathedral Road Cardiff CF11 9LJ</p>

Appendix 2

Criteria for assessing the Authority's arrangements during 2009-10 for securing economy, efficiency and effectiveness in its use of resources

Corporate performance management and financial management arrangements	Questions on arrangements
Establishing objectives determining policy and decision making	Has the Authority put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
Meeting the needs of users, stakeholders and the local population	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?
Monitoring and reviewing performance	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?
Compliance with established policies	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?
Operational and financial risks	Has the Authority put in place arrangements to manage its significant business risks?
Managing financial and other resources	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?
Proper standards of conduct etc	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 issued since my last audit letter

Report	Date
Audit Strategy	February 2010
Audit of the Accounting Statements – Report to members	September 2010
Financial Statements Audit	November 2010
Annual Audit Letter	November 2010



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