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Annual Audit Letter 2008-09

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 2008-09 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 Letter was set out in the agreed 2008-09 Outline 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 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 2008-09:
 - the Authority's 2008-09 accounts were properly prepared and materially accurate;
 - the Authority met its key financial targets for 2008-09;
 - the Authority had effective financial management arrangements; and
 - the Authority's significant financial systems were fit for purpose.
6. The Authority has appropriate corporate arrangements in place to support effective use of resources:
 - the Authority had proper arrangements in 2008-09 to help it achieve economy, efficiency and effectiveness in its use of resources;
 - the Authority continues to perform well, demonstrating effective arrangements for the management of its resources; and
 - performance audit work supports my conclusion about the arrangements to secure economical, efficient and effective services.
7. This Letter has been agreed with the Director of Finance and Resources and Section 112 officer.

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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.

A handwritten signature in black ink, appearing to read 'A Barrett'.

Anthony Barrett
Appointed Auditor

Date: December 2009

The Authority's resources were, in all material respects, 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 includes an opinion on whether the financial statements present fairly the financial position of the Authority at the year-end.

The Authority's 2008-09 accounts were properly prepared and materially accurate

11. The Authority produced and approved its draft financial statements by 30 June 2009, in accordance with the requirements of the Accounts and Audit Regulation (Wales) 2005.
12. 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.
13. My Audit Manager reported these issues to the Audit Committee on 10 September 2009. 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.	I had no concerns about the qualitative aspects of your accounting practices and financial reporting.
Expected modifications to the auditor's report.	No modifications to the auditor's report.
Unadjusted misstatements.	There were no uncorrected misstatements. I identified some non-trivial adjustments and amendments to disclosures during the course of the audit. Management made appropriate amendments in all cases.
Material weaknesses in the accounting and internal control systems identified during the audit.	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 2009 I issued my opinion on the Authority's accounts. I concluded that the accounts presented fairly the financial position of the Authority as at 31 March 2009 and of its income and expenditure, gains and losses and cash flows for the year then ended.
15. 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.
16. New requirements for financial reporting will shortly be required under the International Financial Reporting Standards (FRS). This will impact on the accounting treatment of the Authority's Ammanford police station private finance initiative (PFI) scheme. The Authority has engaged with us at an early stage in preparation for this.

The Authority met its key financial targets for 2008-09

17. 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.
18. 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.
19. The Authority has a good track record of operating within its revenue budget and this continued in 2008-09. Net expenditure £85.4 million against an original budget of £87.0 million. The surplus of £1.6 million was transferred into reserves. The Authority has continued to receive regular reports from the Director of Finance and Resources on expenditure and position against 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 2009 the Authority had some £24.9 million in cash-backed earmarked and general reserves. Cash backed reserves increased by £1.03 million over the year.

21. I consider the present financial position of the Authority to be healthy with the level of cash back earmarked reserves being relatively high in comparison to similar sized organisations. Whilst these reserves have been provided for specific capital and revenue purposes, I would anticipate that during the next two years the Authority will need to utilise some of the reserves outlined below. As a result I would expect to see a downward trend in the overall level of reserves in the medium term. I will continue to monitor the financial position of the Authority in 2009-10

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

	31 March 2008 £'000	31 March 2009 £'000
Capital reserve	2,945	2,513
Revenue earmarked	18,706	19,966
General	2,219	2,425
Total	23,870	24,904

Source: Dyfed Powys Police Authority Audited Accounts 2008/2009

22. A deficit of £517.3 million on the Authority's Pension Fund (using the methodology within FRS 17) was reported by the actuary. Employer contribution rates remain high due to this continued deficit and as this will impact on future revenue expenditure it will require careful planning and continued monitoring.

The Authority had effective financial management arrangements

23. 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.
24. 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.

25. I have therefore concluded that effective financial management arrangements are in place.

The Authority's significant financial systems were fit for purpose

26. 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.
27. I concluded that the Authority's significant financial systems can be relied upon to produce materially correct outputs. 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

The Authority had proper arrangements in 2008-09 to help it achieve economy, efficiency and effectiveness in its use of resources

28. 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 2008-09 is set out in Appendix 1.
29. In addition to the audit of the annual accounts, other important sources of assurance have come from performance and inspection work undertaken by HMIC and Internal Audit.
30. 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.
31. There were no matters arising from my work in this area for 2008-09 that I wish to draw to your attention.
32. Additionally as part of my work to support the VFM conclusion, I also considered the results arising from the Police Use of Resources Evaluation (PURE).

The Authority continues to perform well, demonstrating effective arrangements for the management of its resources

33. I undertook the PURE 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 and Standing Guidance for Auditors.

34. The PURE assessment for 2008/09 changed significantly with Authorities being assessed on three themes being managing its finances, governing its business and managing resources. The emphasis of the assessment also changed from reviewing arrangements to evaluating demonstrable outcomes. This has made it far more challenging for Authorities to achieve the maximum score of 4.
35. The work involved us assessing the three 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.
36. As set out in Exhibit 3, overall I have scored the Authority 3 in terms of use of resources, as the Authority performs consistently above minimum requirements. This is a good achievement by the Authority.

Exhibit 3: Police Use of Resources Evaluation

Area of review	Assessment
	2008/09
Managing its finances	3
Governing the business	3
Managing resources	3
Overall score	3

37. During the review my audit team were provided with details of a number of specific business improvement projects that had commenced during the last two years. These projects have formal management boards in place and processes to quantify the benefits realised. Whilst some benefits have already been achieved, there is still scope for further efficiencies and other benefits to be realised from the successful management of these projects. The demonstration of these anticipated outcomes in future years will help the Authority continue to achieve good PURE assessment scores.

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

The Authority's approach to buildings management made good use of resources to support improvements in service delivery but there is scope to improve in certain areas

38. My review found that the Authority's approach to buildings management made good use of resources to support improvements in service delivery. I identified scope for improvements in relation to the Estate department's performance management arrangements and post project evaluation.

39. There is a need to develop a stronger performance management system relating to the management of the Authority's buildings which identifies appropriate performance indicators and targets. These indicators, if measured at an individual building level, could provide a great deal of useful information which could help identify efficiency savings and improved working practices.
40. Post project evaluation arrangements need to be enhanced. Whilst reviews in relation to financial budgets and timeliness are undertaken, the Authority needs to ensure that all projects have a full post project evaluation to consider other issues such as fitness for purpose and user satisfaction.
41. Officers have agreed to the recommendations made as a result of this review and a detailed action plan has been put in place. We will follow up the progress made during our 2009-10 audit.
42. The Wales Audit Office Good Practice Exchange website shares the learning from this work across Wales and features examples of good practice in buildings management. The website also includes other examples of good practice, including grants management and sickness absence management. It can be accessed at www.wao.gov.uk.

The Authority continues to maintain high quality data standards and good management arrangements are in place

43. The follow up review assessed whether there were robust arrangements in place to secure the quality of key performance data. It also considered whether the arrangements were being applied in practice.
44. My review concluded that the Authority continues to maintain high quality data standards and good management arrangements are in place.
45. In summary, the reasons for reaching this conclusion are set out below:
 - Police Authority arrangements are good with high priority given to data quality;
 - the Force and Authority demonstrate a strong culture of data integrity with good management arrangements in place;
 - governance and leadership is clearly defined and improvement of data quality is a corporate priority;
 - the Force and Authority have effective arrangements in place for monitoring and review of data quality and is taking further steps to drive improvement;
 - a policy for data quality is in place and supported by operational procedures and guidance;
 - effective systems are in place for the collection, recording and analysis of data;
 - good arrangements are in place to ensure that staff have the appropriate knowledge, competencies and capacity for their roles in relation to data quality; and
 - our data testing has shown improvement in the quality of data and specifically NSIR.

Appendix 1

Conclusion on Dyfed Powys Police Authority's arrangements for the year ended 31 March 2009 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 2008-09 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 Governance Statement and as a result of the work carried out, as described above as part of my audit of the 2008-09 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 December 2009</p>	<p>Wales Audit Office Unit 4, Evolution, Lakeside Business Village St David's Park Ewloe CH5 3XP</p>

Appendix 2

Criteria for assessing the Authority's arrangements during 2008-09 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
Outline Strategy	January 2009
Building Management (presentation)	February 2009
Data Quality Arrangements (follow up)	May 2009
Financial Accounts Audit and Report to those Charged with Governance	September 2009
Audit of Financial Statements – Financial Accounts Memorandum	December 2009
Annual Audit Letter	December 2009

Appendix 4

Audit fee

The Audit Strategy for 2008-09 set out the proposed audit fee of £67,082 (plus VAT). The table below sets out my latest estimate of the actual fee for 2008-09, on the basis that some performance work remains in progress.

Analysis of proposed and actual audit fee 2008-09

Code area	Planned fee 2008-09 (£)	Actual fee 2008-09 (£)
Financial Accounts	56,134	56,134
Performance	10,948	10,948
Total	67,082	67,082



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