



WALES AUDIT OFFICE

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Annual Audit Letter 2006/2007

Dyfed Powys Police Authority

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Summary

1. This Annual Audit Letter (Letter) to members of the Dyfed Powys Police Authority (the Authority) summarises the conclusions from my 2006/2007 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 2006/2007 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 Committee. The reports issued are shown in Appendix 3.
3. A number of references are made within this Letter to guidance and documentation issued, 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 have, in all material respects, been properly used and accounted for in 2006/2007:
 - the Authority's 2006/2007 accounts were properly prepared and materially accurate;
 - the Authority met its key financial targets for 2006/2007, but the impact of the Pension Fund deficit needs continuing monitoring;
 - the Authority has effective financial management arrangements; and
 - the Authority's significant financial systems are fit for purpose.
6. The Authority has proper arrangements to help it deliver efficient, economical and effective services. Performance audit work supports my conclusion about the arrangements to secure efficient, economical and effective services.
7. This Letter will be discussed and agreed with the Treasurer and Director of Finance and Resources. The Letter will be presented to the Authority and a copy 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

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 Accounting Statements present fairly the financial position of the Authority. Our financial audit work covers the following key areas:
 - Financial Statements (or accounts);
 - financial health;
 - financial management; and
 - financial systems.

The Authority's 2006/2007 accounts were properly prepared and materially accurate

11. The Authority produced and approved its draft Financial Statements on 18 June 2007. This was within the statutory deadline.
12. International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of our accounts audit. The Appointed Auditor's report 'Audit of the Financial Statements – Reporting to those Charged with Governance' was presented to the Authority on 28 September 2007. A summary of the findings is set out in Exhibit 1:

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	No unadjusted misstatements
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

13. On 28 September 2007, I issued an unqualified auditor's report on the Financial Statements. The Authority's Financial Statements were produced to a high standard and were prepared, in all significant respects, in accordance with the CIPFA/LASAAC joint committee's 'Code of Practice on Local Authority Accounting in United Kingdom 2006: A Statement of Recommended Practice'. This was achieved despite fundamental changes to the requirements of the 2006 Statement of Recommended Practice, which included the disclosure of an Income and Expenditure Account, A Statement of Movement on the General Fund Balance and the Statement of Recognised Gains and Losses and a Police Pension Fund Account.
14. We finalised our report on the Authority's Whole of Government Accounts on 28 September 2007. There were no matters of significance to report.

The Authority met its key financial targets for 2006/2007 and there are no issues that could significantly impact the overall financial health of the Authority

15. The Authority has a good record of achieving its revenue budget and we have identified no significant financial health issues.
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 this continued in 2006/2007. Net expenditure of £79,893 million matched the original budget of £79,893 million. The General Reserve remained at £2.119 million.
19. The Authority has continued to receive regular reports from the Treasurer and 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 the amount reserved is based on realistic assumptions of need. Exhibit 2 identifies that, as at 31 March 2007, the Authority had some £19.120 million in cash-backed reserves which is a £2.961 million increase compared to last year.

Exhibit 2: The Authority's cash-backed reserves 2005/2006 to 2006/2007

	2005/2006 £'000	2006/2007 £'000
Earmarked reserves	14,040	17,001
General	2,119	2,119
Total	16,159	19,120

Source: *The Authority's Audited Accounts 2006/2007*

21. Earmarked reserves have been set aside for known and predicted liabilities and commitments such as insurance and capital expenditure. General reserves represent 2.65 per cent of net expenditure. However, the cash-back earmarked reserves equate to 21.28 per cent which is relatively high in comparison to similar-sized organisations.
22. The Authority, as part of the budget setting process, needs to ensure these reserves are kept at an appropriate level and I will continue to monitor the level of reserves as part of our 2007/2008 audit.
23. I consider the present financial position of the Authority to be relatively strong. Following the recent negotiated settlements, the Finance department has reported that the Authority will achieve balanced budgets for each of the next three years whilst maintaining a funding profile which sits within the precept limit of five per cent.
24. As set out in Exhibit 3, the Actuaries of the Local Government Pension Scheme and the Police Pension Scheme identified a cumulative deficit of £526.95 million compared with £528.71 million last year. The main reason for the decrease in the deficit was a stronger performance on investments.

Exhibit 3: The Authority's pension valuations

	2005/2006 £'000	2006/2007 £'000
Local Government Pension Scheme		
Market value of assets	37,426	41,132
Estimated liabilities	-48,871	-51,003
Net liability	-11,445	-9,871
Police Pension Scheme		
Market value of assets	0	0
Estimated liabilities	-517,271	-517,081
Net liability	-517,271	-517,081
Total net Liability	-£528,716	-£526,952

Source: *The Authority's Audited Accounts 2006/2007*

The Authority has effective financial management arrangements

25. 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.
26. My review of these areas identified:
- that the arrangements to maintain the systems of internal control were found to be effective;
 - Internal Audit is fully compliant with Internal Audit standards;
 - 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
 - the ethical framework of the Authority was found to be operating effectively together with the arrangements for preventing and detecting fraud and corruption.
27. I have, therefore, concluded that effective financial management arrangements are in place, although there are some less significant areas for improvement which have been reported to management.

The Authority's significant financial systems are fit for purpose

28. My review of the Authority's financial systems has 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.
29. I have concluded that the Authority's significant financial systems can be relied upon to produce materially correct outputs. A small number of matters were discussed and agreed with officers to ensure that effective procedures for the operation of financial systems continues. There are no specific matters I need to bring to the attention of members.

The Authority had proper arrangements in 2006/2007 to help it achieve efficient, economical and effective services

30. In examining the Authority's accounts each year, I am required under Section 61(3) of the Public Audit (Wales) Act 2004 (the 2004 Act) 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 arrangements for 2006/2007 is set out in Appendix 1.

31. The focus of my work for the purposes of the annual conclusion is on the evidenced existence of these arrangements themselves. I am not commenting on the effectiveness of the arrangements during the year, and management should not seek to take assurance from the findings of my work in this regard. My separate Value for Money (VfM) audit work does consider where the arrangements or their operation could be improved. This latter work informs my conclusion on the existence of 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, but is not essential to it.
32. In addition to the audit of the annual accounts, other important sources of assurance have come from audit, performance and inspection work undertaken by Her Majesty's Inspectorate of Constabularies and Internal Audit.
33. 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 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.
34. In considering significance, I look at the potential impact of the absence of expected arrangements. For example, an absence of budgetary control arrangements is likely to have a significant impact on an organisation's ability to secure VfM in its use of resources. Where I find significant gaps in the arrangements, then I may raise issues and make recommendations for improving them.
35. There are no matters arising from my work in this area for 2006/2007 that I wish to draw to your attention.
36. 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

37. I undertook the 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 2004 Act, and in accordance with the Auditor General for Wales' (the Auditor General) Code and Standing Guidance for Auditors.
38. The aim of my review is to provide authorities and forces with a review of their arrangements for managing their resources, including their public accountability and financial frameworks.
39. The PURE assessment enables auditors to form judgements on the Authority and Force arrangements to secure effective use of resources across the five themes of financial reporting, financial management, financial standing, internal control and VfM.

40. 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.
41. As set out in Exhibit 4, I have given Authority an overall score of 3 – in terms of use of resources the Authority performs consistently above minimum requirements.
- The Authority improved its arrangements for financial standing and progress continues to be made to improve its other arrangements further for 2007/2008.

Exhibit 4: Police Use of Resources assessment

Use of Resources Theme	2006/2007 Assessment	2005/2006 Assessment
Financial reporting	3	3
Financial management	3	3
Financial standing	4	3
Internal control	3	3
VfM	3	3
Overall score	3	3

Source: Wales Audit Office – Police Use of Resources report

42. Strengths and areas for improvement have been identified and reported to the Authority.

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

My review of data quality assessed management and the Authority arrangements as ‘good’ and data as ‘excellent’

43. This review was 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, with whom the results were shared.
44. My review found that corporate arrangements remained stable and the Authority role and data testing improved since the review was last conducted in 2005/2006. Data quality was judged to be ‘Excellent’ while both corporate arrangements and the Authority role were assessed as ‘Good’. Recommendations from my 2005/2006 report were implemented and the ongoing improvement programme continues. Areas for further development had been identified. These included developing data into the corporate risk approach and further preparation for the implementation of the National Standard for Incident Recording.

45. The 2006/2007 review also included for the first time, data derived from user surveys. The quality and management arrangements relating to user surveys were both judged as 'Good'. My assessment is summarised in Exhibit 5:

Exhibit 5: Police data quality assessment

	Poor	Fair	Good	Excellent	Direction of travel	
Corporate arrangements for data quality					↑	Improved
The Authority role					→	Stable
Data testing results – crime data					↑	Improved
Data testing results – user satisfaction data						

Source: Wales Audit Office – Review of Police Data Quality 2006/2007

46. My findings indicate that there are adequate arrangements in place for securing the accuracy of statutory performance indicators and these are fairly stated.
47. The details supporting these assessments have previously been reported to the Authority and Force and the following actions agreed:
- embed data quality as part of the corporate risk management arrangements, with regular assessments of the risks associated with unreliable and inaccurate information;
 - assess the quality of call handling grading for accuracy and any issues should be addressed by development plans for staff;
 - incorporate data which can identify predictive trends and resource usage to help inform the organisation;
 - identify, highlight and disseminate the failed incidents contained in the data testing spreadsheet to operational personnel for awareness and development; and
 - provide a more consistent approach across divisions to explore issues emerging from available user satisfaction data.

I will continue to review the Authority's progress on Making the Connections

48. In concluding my initial work, I agreed with the Authority that it was making good progress in implementing the Making the Connections agenda.
49. My review revealed that the Authority has a track record of successful implementation of effective joint working, which has produced examples of good practice and delivered successful outcomes. There is an ongoing commitment to progress this agenda, to maximise the benefits for local citizens. The Authority also made progress in successfully implementing a range of customer service initiatives and is committed to building on best practice to further improve both the range and access to services.
50. The Authority has well-established mechanisms for consulting with the public and can demonstrate good practice in shifting resources to meet public priorities. It is engaged in a process of workforce modernisation and is tackling the challenges it faces in bringing about the necessary cultural change.
51. We have agreed with the Force and Authority that they are currently at the 'developing' stage for Preparing the Workforce, at the 'practising' stage for Customer Service and Public Engagement and at the 'leading' stage for Working Together.
52. The Wales Audit Office intends to build on this by undertaking a study into the use of assets across the Welsh public service. The potential efficiency gains from reviewing the configuration and use of assets are significant and the potential gains from joint working in this area are also significant. There is a unique opportunity to:
- promote better use of assets at the institutional and broader community level; and
 - identify and share good practice.

The Wales Audit Office intends to examine asset management across the Welsh public services over a four-year period. Initially, we will examine 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.

Appendix 1

Auditor's report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2006/2007

Conclusion on the Authority's arrangements for the year ended 31 March 2007 for securing economy, efficiency and effectiveness in its use of resources

Accountable Officer's responsibilities

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.

Auditor's responsibilities

I have a responsibility under Section 17(2) of the 2004 Act 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 Auditor General's 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 VfM 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 2006/2007 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 VfM 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 2006/2007 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 Letter to the Authority.

Anthony Barrett
Appointed Auditor
Date

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Appendix 2

Criteria for assessing the Authority's arrangements during 2006/2007 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	1. Has the Authority put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
Meeting needs of users, stakeholders and the local population	2. 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?
Compliance with established policies	3. 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?
Managing operational and financial risks	4. Has the Authority put in place arrangements to manage its significant business risks?
Managing financial and other resources	5. Has the Authority put in place arrangements to evaluate and improve the VfM it achieves in its use of resources?
	6. Has the Authority put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities?
	7. Has the Authority put in place arrangements to ensure that its spending matches its available resources?
	8. 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?
	9. Has the Authority put in place arrangements for the management of its asset base?

Corporate performance management and financial management arrangements	Questions on arrangements
Monitoring and reviewing performance	10. 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?
	11. Has the Authority put in place arrangements to monitor the quality of its published performance information, and to report the results to Authority members?
Proper standards of conduct etc	12. 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 2006/2007 audit

Report	Date
Audit Strategy	March 2007
Crime Data Quality	July 2007
Financial Accounts Audit and Report to those Charged with Governance	September 2007
Financial Accounts report	December 2007
Police Use of Resources	December 2007
Annual Audit Letter	March 2008

Appendix 4

Audit fee

The Audit Strategy for 2006/2007 set out the proposed audit fee of £63,294 (plus VAT). The table below sets out my latest estimate of the actual fee for 2006/2007. Additional audit work was undertaken as a result of information brought to my attention by the Independent Police Complaints Commission in October 2007. The outcome of this work was reported to the Section 112 Officer in December 2007. A copy of the report was also provided to the IPCC. This resulted in a fee increase of £2,968.

Analysis of proposed and actual audit fee 2006/2007

Code area	Planned fee 2006/2007 (£)	Estimated actual fee 2006/2007 (£)
Financial accounts	41,767	44,735
Performance	21,527	21,527
Total	63,294	66,262



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