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Audit of Financial Statements Report and Management Letter

Police and Crime Commissioner for Dyfed Powys and Chief Constable for Dyfed Powys

Audit year: 2015-16

Issued: September 2016

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Status of report

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The team who delivered the work comprised: John Herniman, Jason Garcia and Leanne Malough

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The Auditor General for Wales intends to issue an unqualified audit report on the financial statements of the Police and Crime Commissioner for Dyfed Powys and the Chief Constable for Dyfed Powys. There are some issues to report to you prior to their approval.

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Summary report

Introduction

1. The Auditor General for Wales is responsible for providing an opinion on whether the financial statements of the Police and Crime Commissioner for Dyfed Powys (the Commissioner) and of the Chief Constable for Dyfed Powys (the Chief Constable) give a true and fair view of their financial position at 31 March 2016 and of their income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audits, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material are:

	Police and Crime Commissioner £	Chief Constable £	Pension Fund £
Income and expenditure items and other balances	£1.485 million	£1.485 million	£0.330 million

Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements, reporting requirements and political sensitivity.

4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. For police bodies, those charged with governance are the Police and Crime Commissioner and the Chief Constable.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Commissioner and the Chief Constable that require reporting under ISA 260. We have not included any recommendations in this report and we will issue a separate report to management summarising all the issues arising along with recommendations.

Status of the audit

6. We received the draft financial statements for both the Commissioner and the Chief Constable for the year ended 31 March 2016 on 1 July 2016. Both sets of accounts had been signed on 30 June in accordance with the required deadlines.
7. We have now completed the majority of the audit work. We are reporting to you the more significant issues arising from the audits, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Chief Financial Officer to the PCC/Director of Finance – Chief Constable.

Proposed audit reports

8. It is the Auditor General's intention to issue an unqualified audit report on the financial statements of the Commissioner and an unqualified audit report on the financial statements of the Chief Constable once you have provided us with the Letters of Representation based on those set out in [Appendices 1 and 2](#).
9. The proposed audit reports are set out in [Appendices 3 and 4](#).

Significant issues arising from the audit

Uncorrected misstatements

10. Where misstatements are identified during the audit, management have the opportunity to correct them in the final version of the financial statements. Management have corrected for all misstatements identified and consequently there are no misstatements which remain uncorrected.

Corrected misstatements

11. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendices 5 and 6](#) for the Police and Crime Commissioner and Chief Constable respectively.

Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

We have no concerns about the qualitative aspects of your accounting practices and financial reporting.

We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.

- **We did not encounter any significant difficulties during the audit.**

There were no significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work.

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- **There are two other matters discussed and corresponded upon with management which we need to report to you.**

Milne v Government Actuary's Department (GAD) court ruling

Payments totalling £3,191,000 were made from the Police Pension Fund in 2015/16 to settle amounts arising from the error made by GAD which resulted in incorrect commuted sum payments to pensioners on a national basis. A provision for this was correctly included in the 2014/15 accounts. An amount of approximately £49,000 is still to be paid in respect of three officers and a creditor for this amount has been included. A debtor for the same amount has also been included reflecting a contribution from the Commissioner for income reimbursement, which was received as Home Office grant income by the Commissioner in 2015/16.

Under HMRC rules, the above payments were classed as unauthorised payments and an additional charge was levied on all Police Forces. The Home Office wrote to all Police Forces on 8 December 2015 advising them that the costs relating to unauthorised payment charges would be dealt with centrally by Government and a payment was made by HM Treasury on 29 March 2016 to HMRC covering 95 per cent of the outstanding amounts. The remaining five per cent will be paid to HMRC by HM Treasury in August 2016.

As both the notional expenditure and income relating to Dyfed Powys Police's share of the unauthorised payments charge would be included in the Pension Fund account, there would be an overall £nil impact on this account. As a result, these entries have not been made, however, a note explaining the position has been included in the Pension Fund financial statements.

Control account reconciliations

Key control account reconciliations should be performed on a monthly basis to enable swift and timely action of any imbalances or anomalies in accordance with the Force's own internal policies.

We identified that some key reconciliations on payroll, debtor, creditor and suspense control accounts were not always undertaken promptly and for each month during the year. Year-end reconciliations were however undertaken in all cases.

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls that we have not reported to you already.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

13. As part of the finalisation process, we are required to provide you with representations concerning our independence.
14. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Police and Crime Commissioner for Dyfed Powys or the Chief Constable for Dyfed Powys, other than those already communicated to you in the 2016 Audit Plan, that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation - Police and Crime Commissioner for Dyfed Powys

(Audited body's letterhead)

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the Police and Crime Commissioner for Dyfed Powys for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

-
- additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
 - the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - our knowledge of fraud or suspected fraud that we are aware of and that affects the Police and Crime Commissioner for Dyfed Powys and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
 - our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements; and
 - the identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

Disclosures included within the Police Officer and Police Staff Remuneration note and the Termination note have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by the Police and Crime Commissioner for Dyfed Powys

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were recommended for approval by the Joint Audit Committee on 20 September 2016.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Chief Financial Officer to the PCC

Date:

Signed by:

Police and Crime Commissioner for
Dyfed Powys

Date:

Appendix 2

Final Letter of Representation – Chief Constable for Dyfed Powys

(Audited body's letterhead)

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the Chief Constable for Dyfed Powys for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

-
- additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
 - the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - our knowledge of fraud or suspected fraud that we are aware of and that affects the Chief Constable for Dyfed Powys and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
 - our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements; and
 - the identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

Disclosures included within the Police Officer and Police Staff Remuneration note and the Termination note have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by the Chief Constable for Dyfed Powys

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were recommended for approval by the Joint Audit Committee on 20 September 2016.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Director of Finance – Chief Constable

Date:

Signed by:

Chief Constable for Dyfed Powys

Date:

Appendix 3

Proposed audit report of the Auditor General for Wales to the Police and Crime Commissioner for Dyfed Powys

Auditor General for Wales' report to the Police and Crime Commissioner for Dyfed Powys

I have audited the accounting statements and related notes of the:

- Police and Crime Commissioner for Dyfed Powys;
- Police and Crime Commissioner for Dyfed Powys Group; and
- Dyfed Powys Police Pension Fund

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The Police and Crime Commissioner for Dyfed Powys' accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement,

The Police and Crime Commissioner for Dyfed Powys' Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The Dyfed Powys Police Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts as set out on page eight, the responsible financial officer is responsible for the preparation of the statement of accounts, including the Police and Crime Commissioner for Dyfed Powys' Group accounting statements and the Dyfed Powys Police Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Police and Crime Commissioner for Dyfed Powys' and Police and Crime Commissioner for Dyfed Powys Group's and Dyfed Powys Police Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of the Police and Crime Commissioner for Dyfed Powys

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Dyfed Powys as at 31 March 2016 and of his income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on the accounting statements of the Police and Crime Commissioner for Dyfed Powys Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Dyfed Powys Group as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on the accounting statements of the Police Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of the Dyfed Powys Police Pension Fund during the year ended 31 March 2016 and of the amount and disposition of the Fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;

-
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of the Police and Crime Commissioner for Dyfed Powys in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
29 September 2016

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

The maintenance and integrity of Police and Crime Commissioner for Dyfed Powys' website is his responsibility; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Appendix 4

Proposed audit report of the Auditor General for Wales to the Chief Constable for Dyfed Powys

Auditor General for Wales' report to the Chief Constable for Dyfed Powys

I have audited the accounting statements and related notes of the:

- Chief Constable for Dyfed Powys; and
- Dyfed Powys Police Pension Fund.

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The Chief Constable for Dyfed Powys' accounting statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, and related notes.

The Dyfed Powys Police Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement and related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, including the Dyfed Powys Police Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Chief Constable for Dyfed Powys and the Dyfed Powys Police Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer; and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of the Chief Constable for Dyfed Powys

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the Chief Constable for Dyfed Powys as at 31 March 2016 and of his income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on the accounting statements of the Dyfed Powys Police Pension Fund

In my opinion, the Pension Fund accounts and related notes:

- give a true and fair view of the financial transactions for Dyfed Powys Police Pension Fund during the year ended 31 March 2016 and of the amount and disposition of the fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns;
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Chief Constable for Dyfed Powys in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
Xx September 2016

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

The maintenance and integrity of Police and Crime Commissioner for Dyfed Powys' Dyfed Powys' website is his responsibility; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Appendix 5

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Police and Crime Commissioner for Dyfed Powys

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
£1,254,000	Increase in Employer Contributions in the Pension Fund Accounts to disclose the full amount paid to the Home Office during 2015-16.	The Police Pension Fund was presented showing a shortfall to be met by the Police Fund. However, the full 24.2% contribution rate value should be included as this is the correct amount that has been paid to the Home Office.
£3,190,528	Removal of £3.1 million GAD Provision Expenditure from Commutations and Lump Sums in the Pension Fund Accounts.	The provision was set up in 2014-15 and expenditure was recognised in the year. As this provision has been realised in the 2015-16 financial year, the expenditure should not be included in the expenditure line.
£178,000	Amendments needed to the Capital Adjustment Account to use of reserves and charges to the General Fund.	Grant balance incorrectly included as a revenue item charged to the General Fund when it should have been a Capital item.
£141,000 Expenditure £106,000 Income	Amendments needed to the Collaboration Arrangement Notes for both expenditure and income for the Regional Organised Crime Unit and Regional Task Force	Updated audited Collaboration tables from South Wales Police highlighted a number of errors that needed correction.
Various	A number of other narrative, presentational and minor amendments were made to the accounts.	To ensure full compliance with the Code, ensure presentational accuracy in line with International Financial Reporting Standards, and improve or correct narrative disclosures.

Appendix 6

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Chief Constable for Dyfed Powys

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
£1,254,000	Increase in Employer Contributions in the Pension Fund Accounts to disclose the full amount paid to the Home Office during 2015-16.	The Police Pension Fund was presented showing a shortfall to be met by the Police Fund. However, the full 24.2% contribution rate value should be included as this is the correct amount that has been paid to the Home Office.
£3,190,528	Removal of £3.1 million GAD Provision Expenditure from Commutations and Lump Sums in the Pension Fund Accounts.	The provision was set up in 2014-15 and expenditure was recognised in the year. As this provision has been realised in the 2015-16 financial year, the expenditure should not be included in the expenditure line.
£141,000 Expenditure £106,000 Income	Amendments needed to the Collaboration Arrangement Notes for both expenditure and income for the Regional Organised Crime Unit and Regional Task Force	Updated audited Collaboration tables from South Wales Police highlighted a number of errors that needed correction.
Various	A number of other narrative, presentational and minor amendments were made to the Chief Constable and Pension Fund statements.	To ensure full compliance with the Code, ensure presentational accuracy in line with International Financial Reporting Standards, and improve or correct narrative disclosures.

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