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Dear Arfon and Carl

## Annual Audit Letter Police and Crime Commissioner for North Wales and Chief Constable for North Wales

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

### The Police and Crime Commissioner for North Wales and the Chief Constable for North Wales complied with their responsibilities relating to financial reporting and use of resources

The Police and Crime Commissioner (P&CC) and the Chief Constable (CC) are responsible for:

- putting systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure the security of assets;
- maintaining proper accounting records;
- preparation of Statements of Accounts in accordance with relevant requirements; and
- the establishment and review of appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Body's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Police bodies in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Body Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

On 28 September 2018 I issued unqualified audit opinions on the accounting statements for both the P&CC and the CC, confirming that they present a true and fair view of each body's financial position and transactions.

The key matters arising from the accounts audit were reported to the P&CC and CC in my Audit of Financial Statements report on 28 September 2018.

**I am satisfied that both the P&CC and CC have appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

My consideration of the arrangements to secure economy, efficiency and effectiveness has been based on:

- the audit work undertaken on the statement of accounts;
- the results of the audit work undertaken on the P&CC's and the CC's systems of internal control, as reported in the Annual Governance Statements;
- the results of the work of other external review bodies, eg Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) value for money profiles 2018; and
- any other work, including from Internal Audit, that I considered necessary to discharge my responsibilities.

For the purposes of my work, I evaluated the P&CC's and the CC's systems against a number of questions. This approach is set out in detail in **Appendix 1**. For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.

### **Police and Crime Plan 2017-21**

The Commissioner has set out his priorities and objectives in the North Wales Police and Crime Plan 2017-21. The plan is underpinned by the North Wales Force Delivery Plan 2017-18.

The Commissioner consulted widely on the priorities and objectives included within the plan, engaging with key stakeholders including the Chief Constable, residents of North Wales, the business community and key public sector partners.

The Police and Crime Panel considered the Police and Crime plan in line with its statutory duties, confirming its support for the plan.

Performance against priorities and objectives is monitored by the Commissioner through the Strategic Executive Board and also by the Police and Crime Panel which receives regular updates from the Commissioner.

## Police bodies across Wales face significant financial challenges

Austerity funding remains the most significant challenge facing police bodies in Wales and these financial pressures are likely to continue for the medium term. The Home Office funding for the P&CC in 2017-18 was £71 million, a flat settlement from 2016-17. A further flat settlement was received for 2018-19 and this is anticipated to be the case for the grant funding for 2019-20. The formal notification of Home Office funding for 2019-20 has not yet been received.

The P&CC and CC have achieved financial savings of £29.6 million between 2011-12 and 2017-18 but are seeking further savings of £8.9 million which will need to be achieved by 2023.

In 2017-18, the P&CC and CC were able to make a £0.6 million net contribution to reserves after savings achieved in the year of £2.7 million.

The Home Office permitted an increase in Council Tax for 2018-19 by up to £12 a year in England, for a band D property, with no cap announced by the Welsh Government. The P&CC increased Council Tax for 2018-19 by 3.58% or £8.91 per year for a band D property. For 2018-19, forecast out-turn is projecting an underspend of £0.6 million.

The budget for 2018-19 includes cuts in expenditure of £1.5 million. Ongoing service reviews have identified investment needed to support operational activities of £3.7 million, largely relating to additional spend on investigative resources in response to changes in demand. The cuts identified for 2018-19 will enable some of this investment, with further savings plans for 2019-20 onwards to enable further reinvestment.

The Home Office issued guidance during 2018 on the reporting of reserves, acknowledging that whilst reserves are needed to help manage financial risk and fund major future costs, each P&CC needs to publish their reserves strategy setting out their plans for the reserves and how these will be used to improve services to the public.

The P&CC has published his reserves strategy showing the planned use of reserves over the five years from 2017-18 onwards which show a planned reduction from £38.1 million to £18.5 million. A large element of this reduction was achieved during 2017-18, with the Capital Investment Reserve utilised by funding the new police stations in Wrexham and Llandudno, with the reserves reduced to £25.9 million by 31 March 2018.

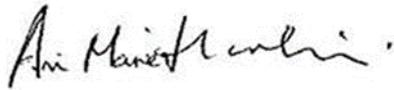
Careful consideration of reserves balances and how they might be used to support financial plans is particularly important as it is not sustainable to rely on reserves to support ongoing costs. Once reserves have been depleted, other sources of funds or efficiencies must be identified.

I issued certificates confirming that the audit of the accounts for the P&CC and the CC have been completed on 28 September 2018

I received no electors' questions or objections in relation to the 2017-18 audit. Having given an audit opinion on the financial statements and concluded on the arrangements to secure economy, efficiency and effectiveness in its use of resources, I was able to certify that the audit of both the P&CC and the CC was complete when I issued my audit opinion.

The financial audit fee for 2017-18 is currently expected to be broadly in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ann Marie Harkin'.

Ann Marie Harkin  
For and on behalf of the Auditor General for Wales

# Appendix 1

## Criteria to assess arrangements for securing economy, efficiency and effectiveness in his use of resources

Exhibit 1: criteria for assessing arrangements

Corporate performance management and financial management arrangements	Questions on arrangements
<b>Establishing objectives determining policy and decision making</b>	Has the Commissioner/Chief Constable put in place arrangements for setting, reviewing and implementing his strategic and operational objectives?
<b>Meeting the needs of users, stakeholders and the local population</b>	Has the Commissioner/Chief Constable put in place channels of communication with the local population, users of the service, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
<b>Monitoring and reviewing performance</b>	Has the Commissioner/Chief Constable 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 Commissioner/Chief Constable?
<b>Compliance with established policies</b>	Has the Commissioner/Chief Constable put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
<b>Operational and financial risks</b>	Has the Commissioner/Chief Constable put in place arrangements to manage his significant business risks?
<b>Managing financial and other resources</b>	Has the Commissioner/Chief Constable put in place arrangements to evaluate and improve the value for money he achieves in his use of resources?
	Has the Commissioner/Chief Constable put in place arrangements to ensure that his spending matches his available resources?
	Has the Commissioner/Chief Constable 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 Commissioner/Chief Constable?
<b>Proper standards of conduct etc.</b>	Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutinising performance, to identify potential variances against strategic objectives, standards and targets for taking action?

Corporate performance management and financial management arrangements	Questions on arrangements
	Has the Commissioner/Chief Constable put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of his business?