

# Audit Plan

## Metropolitan Police Authority

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<b>Reference:</b>	MPA draft audit plan v3 0506
<b>Date:</b>	May 2005

## Introduction

This plan sets out the audit work that we propose to undertake in 2005/06. The plan has been drawn up from our risk-based approach to audit planning and reflects:

- the impact of the new Code of Audit Practice which comes into effect in April 2005;
- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (UK and Ireland) (ISAs).

In previous years, our partners KPMG have undertaken the detailed audit work in support of our audit opinion on the financial statements, subject to our review, and certified the Authority's grant claims. From 2005/06, we will be undertaking this work. KPMG will undertake the detailed audit work to support our opinion on the 2004/05 financial statements, and certify the Authority's 2004/05 grant claims, as planned. We will continue to liaise with KPMG to ensure a smooth handover of responsibilities.

## Our responsibilities

In carrying out our audit duties we have to comply with the statutory requirements governing them, and in particular:

- the Audit Commission Act 1998;
- the Code of Audit Practice (the Code); and
- the Local Government Act 1999.

The Code has been revised with effect from 1 April 2005. The key changes include:

- the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of service users and taxpayers, and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the Authority's affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.

The Authority is responsible for reporting on these arrangements as part of its annual Statement on Internal Control.

Further details for the new Code are set out in Appendix 1.

## The fee

The total fee estimate for the audit work planned for 2005/06 is £516,000 (2004/05: £509,000). The fee is based on the Audit Commission’s fee guidance contained within its operational plan and reflects both national risks identified by the Audit Commission and our local risk assessment.

Further details are provided in Appendix 2 including the assumptions made when determining the fee.

Changes to the plan and the fee may be necessary if our risk assessment changes during the course of the audit. We will formally advise you of any changes if this is the case.

## Summary of key audit risks

This section summarises our assessment and the planned response to the key risks which may have an impact on our objectives to:

- provide an opinion on your financial statements;
- provide a conclusion on your use of resources; and
- provide a report on the Authority’s best value performance plan.

Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including internal audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

The expected outputs from this work are outlined in Appendix 2.

## Use of resources

We will focus our work so as to enable us to conclude whether you have put in place proper arrangements to secure economy, efficiency and effectiveness with regard to the use of resources.

The Audit Commission is currently developing relevant criteria for auditors to apply in reaching this conclusion. Sources of assurance will include the auditor’s cumulative knowledge and experience including the results of previous work and the work of other regulatory agencies (including internal audit). From our initial risk based planning assessment we have identified the following areas of audit risk to be addressed.

SUMMARY OF USE OF RESOURCES AUDIT RISKS	
Audit risk	Response
Safer Neighbourhood Units and the contribution of the wider police family, eg. PCSOs, are major factors in the public reassurance agenda and a significant investment is planned to increase numbers in London. Management arrangements, resourcing, tasking, evaluation and links with other agencies/partnerships need to be fully effective to ensure that objectives are met and value for money achieved.	The Audit Commission and Internal Audit will jointly perform the work. It is proposed that a joint team will look at arrangements from both a corporate perspective and on boroughs through site visits. Internal audit will focus on management arrangements and resourcing and the Audit Commission on workforce issues, e.g. management, training, deployment and tasking and sickness absence.

Audit risk	Response
The MPS continues to invest heavily in IS/IT systems to support operational policing and business management. The full benefits of this investment can not be achieved without an IS/IT strategy which is fully integrated with the MPS' overall strategy.	We will review the IS/IT strategy, focusing on the mechanism to ensure that systems implementation and advances are translated into policing benefits.
There is a need to ensure that IS/IT systems focus on the needs of users and that the overall impact of IT services on operational service delivery is assessed effectively.	Working with internal audit, we will review IT service delivery, focusing on project/programme outcomes and the impact on users.
The Directorate of Information (DoI) has taken a lead in establishing formal arrangements for follow-up of the results of audit and inspection. These arrangements need to capture all aspects of audit and inspection activity within the DoI to ensure that the benefits of external scrutiny are consistently achieved.	We will review the developing arrangements for maximizing the benefits of audit and inspection activity in the Directorate of Information.
Police forces and authorities have a duty of care to create and maintain proper records on offenders and share that information, when requested, with other agencies. Police authorities need to consider whether they have arrangements in place to secure and monitor the efficiency and effectiveness of their force and that those forces have robust arrangements for the capture, maintenance and deletion of data, and the sharing of that data, on request, with other agencies.	We will review the MPS' arrangements to comply with the Bichard recommendations.
The Freedom of Information Act 2000 places new statutory duties on public bodies and carries significant compliance costs. The business risks of non-compliance are substantial.	We will review the MPA's compliance with the Freedom of Information Act, relying on the work on internal audit as appropriate.
Last year's Best Value Performance Plan (BVPP) was compliant with the legislative requirements, except for the quality of the performance information contained within it. For this reason, we issued an 'except for' qualification on the BVPP.	We will review the performance indicators in the 2005/06 BVPP and provide an opinion on the Plan's compliance with the legislation.

Following the Authority's classification as a 'Fair' authority in the Initial Performance Assessment (IPA), we have applied the principles of strategic regulation recognising the key strengths and weaknesses in the Authority's performance. These include:

- effective working relationships with the MPS and a good understanding of the challenges and opportunities facing Londoners;
- a rigorous scrutiny process to drive changes in policing and better services for victims;
- a clear focus on improving the MPS' performance;
- the need to further develop the MPA's role in crime and disorder partnerships (CDRPs) and local consultation groups; and
- inconsistent approaches to performance and human resource management.

We will follow-up the Initial Performance Assessment and feed the results of this work into our use of resources assessment. We will also follow-up the auditor scored judgement to assess progress.

## Financial statements

We will carry out our audit of the 2005/06 financial statements, having regard to the International Standards on Auditing (ISAs).

We are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the Statement is misleading or inconsistent with our knowledge of the Authority.

On the basis of our preliminary work to date we have identified the following audit risks.

SUMMARY OF OPINION RISKS	
Opinion risks	Response
While the Authority achieved the advanced deadlines for the preparation, adoption and audit of the 2003/04 accounts, preparation for the Whole of Government Accounts will require the earlier production of your Statement of Accounts in 2005/06.	We will continue to work with you to ensure realistic audit and closedown timetables that will achieve an earlier audit opinion.
A significant number of covert transactions take place every year which are material to the Authority's accounts.	We will work closely with internal audit to gain assurance on covert expenditure and balances.
The Authority plans to use the flexibilities introduced by the Prudential Code to meet some capital costs of the Step Change programme.	We will review the Authority's approach to using the flexibilities provided by the Prudential Code.
Some disclosures in the 2003/04 accounts did not meet the requirements of the 2003 Statement of Recommended Practice (SoRP), e.g. the presentation of the cash flow from revenue activities.	We will review SoRP disclosures in the accounts.

However, we have yet to undertake our 2004/05 audit and our 2005/06 financial statement audit planning will continue as the year progresses. This will take account of:

- the 2004/05 opinion audit;
- our documentation and initial testing of material systems; and
- our assessment of the 2005/06 closedown arrangements.

When we have finalised our risk assessment in respect of your financial statements, we will issue a separate plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

## Grant claim certification

We will certify the Authority's 2005/06 grant claims.

- Claims for £50,000 or below will not be subject to certification.
- Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
- Claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.

However the impact of the above will need to be balanced against the need for work on the new 'borough-based' claims.

## Data quality audit

The Police Standards Unit is currently in discussion with the Audit Commission over the commissioning of the third and final phase of the review of data quality in all police forces in England and Wales to be undertaken during 2005/06. The objective of the review is to assess police forces' ongoing compliance with National Crime Recording Standards.

The details of this work have not yet been determined, but we will update you further when this is agreed.

The work is funded separately by the Home Office, and is not included in your audit fee.

## Activity based costing

The Police Standards Unit is also discussing with the Audit Commission the possibility of a further review of activity based costing in 2005/06. The objective of this is to gain assurance that forces are implementing this effectively.

The details of this work have not yet been determined but we will keep you informed on any further work.

The work is funded separately by the Home Office, and is not included in your audit fee.

## Voluntary improvement work

We have discussed potential voluntary improvement work on the Operational Policing Measure. This Audit Plan does not include an outline scope of this work, or the additional costs. We will agree these with you before we commence our work.

## The team

Name	Title
Mike Haworth-Maden	District Auditor
Neil Gray	Audit Manager
Richard Blakey	Support Audit Manager
Claire Bryce-Smith	Area Performance Lead

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

In relation to the audit of your financial statements we will comply with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

## Future audit plans

As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:

- user focus;
- partnerships;
- data quality; and
- equalities and diversity.

We will discuss these in more detail as the audit year progresses.

## Status of our reports to the Authority

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

*ISA 260 ('Communication of audit matters to those charged with governance') requires us to report relevant matters relating the audit to those charged with governance. For the Authority, we have previously agreed that this responsibility will be discharged by reporting relevant matters to the Corporate Governance Committee.*

## The new Code of Audit Practice

### The Audit Commission's objectives in revising the Code

The Commission's objectives in revising the Code are to achieve the following key outcomes:

- a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
- better and clearer reporting of the results of audits.

The new Code has been developed on the basis of the Commission's model of public audit, which defines auditors' responsibilities in relation to:

- the financial statements of audited bodies; and
- audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.

### The main changes being made through the introduction of the new Code

The main changes being introduced through the new Code are:

- auditors' three responsibilities under the old Code, in relation to the financial aspects of corporate governance, the accounts and performance management, will be replaced by two responsibilities in relation to the accounts and use of resources, thereby mirroring their statutory responsibilities under the Audit Commission Act 1998. Auditors' work in relation to the financial aspects of corporate governance will in future largely be covered by their work on the accounts – reflecting recent developments in auditing standards – with audit work in relation to financial standing carried out as part of the work in relation to the use of resources;
- a clear focus, in auditors' work on audited bodies' arrangements for the use of resources, on overall financial and performance management arrangements. This work supports a new requirement for an explicit annual conclusion by the auditor in relation to audited bodies' arrangements for securing value for money in the use of their resources;
- a more explicit focus on improvement (through the risk assessment process) and on the need for auditors to have regard to the risks arising from audited bodies' involvement in partnerships and joint working arrangements and, where appropriate, to 'follow the public pound' into and across such partnerships;
- an emphasis on clearer, more timely reporting based on explicit conclusions and recommendations; and
- a new style narrative audit report to meet statutory and professional requirements.



## Audit fee

Audit area	Plan 2002/04	Plan 2004/05	Plan 2005/06
Accounts	*	*	£263,000
Use of resources	*	*	£253,000
<b>Total audit fee</b>	£1,068,000	£509,000	£516,000
Grant claim certification	£48,000	£25,000	£26,000
Voluntary improvement work	£23,800	-	TBA

\* Comparative information is not available for 2004/05 and earlier years due to the change in the Code of Audit Practice which has reduced the three areas under the old Code to two areas.

The fee (plus VAT) will be charged in 12 equal instalments from April 2005 to March 2006.

## Assumptions

In setting the fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on the material systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing;
- officers will provide good quality working papers and records to support the accounts;
- officers will provide requested information within agreed timescales; and
- officers will provide prompt responses to draft reports.

Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

Changes to the plan will be agreed with you. These may be required if:

- new risks emerge; and
- additional work is required of us by the Audit Commission or other regulators.

## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Corporate Governance Committee.

Planned output	Start date	Draft due date	Key contact
Audit plan*	February 2005	April 2005	Neil Gray
Interim audit memorandum	March 2006	June 2006	Richard Blakey
Report to those charged with governance (ISA 260)	July 2006	September 2006	Neil Gray
Final accounts memorandum	July 2006	September 2006	Richard Blakey
Local performance work	TBA	TBA	Neil Gray
Data quality	October 2005	February 2006	Neil Gray
Activity based costing	TBA	TBA	Neil Gray
BVPP opinion	April 2005	November 2005	Neil Gray
Annual audit letter	October 2006	December 2006	Mike Haworth-Maden

\* To be revisited during the year to reflect outcome of 2004/05 final visit and 2005/06 interim visit.

## The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. Ethical standard 1 also places requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Authority on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;

- auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.