

Annual Governance Report

September 2006



# Annual governance report

**Metropolitan Police Authority**

**Audit 2005/06**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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## Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Corporate Governance Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Corporate Governance Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Authority's financial statements; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work.

- 8 We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 9 Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue a qualified/unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).

### Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate being able to issue a qualified conclusion on the use of resources by 30 September 2006 (a draft report is attached at Appendix 5).
- 11 We are satisfied that, having regard to the criteria for police authorities specified by the Audit Commission and published in August 2005, in all significant respects, the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2006, except for putting in place arrangements to maintain a sound system of internal control.

## Financial statements

- 12 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

## Status of the audit

- 13 Our work on the financial statements is now substantially complete. The main area of outstanding work is in respect of checking the revised set of financial statements for agreed amendments. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of this committee.

## Matters to be reported to the Corporate Governance Committee

- 14 We have the following matters to draw to the Corporate Governance Committee's attention.

### Expected modifications to the auditor's report

- 15 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

### Uncorrected misstatements

- 16 Our audit identified no material misstatements in the financial statements that management has decided not to adjust.

### Adjusted misstatements

- 17 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We therefore draw your attention to the list of material (and other significant) misstatements that management has adjusted in Table 2 overleaf. A complete listing of all amendments has been provided to officers.

**Table 1 Adjusted misstatements in the financial statements**

Details of material and/or significant adjustments made to the financial statements

Issue	Value of misstatement	Impact on surplus/(deficit) on the revenue account
<b>Fixed asset issues</b>		
<p>The MPA/MPS revalues its assets and writes out accumulated depreciation on an annual basis.</p> <p>This process has been incorrectly presented in Note 1 to the balance sheet by adding the accumulated depreciation to the 'disposals' and 'depreciation on assets disposed' lines.</p> <p>This meant that, although there was no overall impact on the revenue account, these lines were overstated by £57m.</p>	£57m	No impact
<p>Approximately £88m of the deferred government grants balance is held to fund the acquisition and build of C3i projects that have yet to be brought into use. A number of these projects are now in place. Consequently, the related funding should have been released from deferred government grants, the assets recognised as operational in the balance sheet and appropriate capital charges made and released through the revenue account.</p>	£29m	No impact
<p>The non-operational assets balance includes assets under construction (AUC) valued at £215m. Of this, £128m relates to IT, while the remainder relates to land and buildings.</p> <p>Approximately £44m of the IT balances and £18m of the land and buildings balance relates to assets that are no longer under construction,</p>	£62m	No impact



Issue	Value of misstatement	Impact on surplus/(deficit) on the revenue account
but have been brought back into use.		
Some building assets were fully depreciated during the year rather than on an annual basis. This is due to an error in the financial accounting system. This error has led to an approximate £12m over depreciation of assets.	£12m	No impact
<b>Other issue</b>		
The Statement of Recommended Practice (SORP) states that actuarial gains and losses should be recognised in the 'total increase/(decrease) in revenue resources' section of the Statement of Total Movements in Reserves (STMR) and taken directly to the Pensions Reserve without any impact on the revenue account. The Authority did not recognise the actuarial loss within the STMR.	£1.4bn	No impact

## Qualitative aspects of accounting practices and financial reporting

- 18 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We wish to report the following matter to you.
- 19 The value of the Authority's capital commitments, shown in Note 1 to the balance sheet, has been compiled via a review against the 2005/06 capital expenditure budget. We were unable to agree the level of capital commitments disclosed to signed contracts or confirmations. The content of this note should be reviewed to ensure that no items are included for which a contract has not been signed.

### **Recommendation**

*R1 The Authority should amend its capital commitment note so that it accurately reflects the value of contracts that it is formally contracted into.*

## Material weaknesses in internal control identified during the audit

- 20 The Authority is aware of weaknesses within its controls for accounting for fixed assets. These control weaknesses have led to significant and material errors and uncertainties in the accounts which have been highlighted above in the adjusted misstatements section of the report.
- 21 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

<b><i>Recommendation</i></b>
<i>R2 Review and improve the controls and processes in place to account for fixed assets.</i>

## Matters specifically required by other auditing standards

- 22 Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.

We have no matters that we wish to report to you:

## Any other matters of governance interest

- 23 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 2 below.

**Table 2 Other matters of governance interest**

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	The SIC has been amended to reflect the control weaknesses within the Authority's arrangements for accounting for fixed assets.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	We have yet to complete this work. We will report to the Chair of this Committee should any issues of governance interest arise.

## Letter of representation

- 24 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

## Next steps

- 25 We are drawing these matters to the Committee's attention so that:
- you can consider them before the financial statements are approved and certified;
  - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements; and
  - the Committee has the opportunity to amend the financial statements for the significant qualitative aspects of financial reporting issues identified above. Should you choose not to amend the financial statements, in accordance with the ISA (UK and Ireland) 260, we request that you extend the representation letter to explain why you are not adjusting the financial statements. We ask that the letter specifically details the qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

## Use of resources

### Value for money conclusion

- 26** The Code requires us to issue reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the police use of resources evaluation (PURE).The PURE is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 27** On the basis of our audit work, we currently propose to issue a report including a qualified value for money conclusion. We are satisfied that, having regard to the criteria for police authorities specified by the Audit Commission and published in August 2005, in all significant respects, the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006, except for putting in place arrangements to maintain a sound system of internal control.
- 28** The key findings from our work on the use of resources criteria are summarised in the table and text overleaf.

**Table 3 Value for money arrangements**

The Authority satisfied the criteria, except in respect of the arrangements to maintain a sound system of internal control

<b>Criteria</b>	<b>Satisfied?</b>
The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives	✓
The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	✓
The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taken action where necessary, and reporting to members/the board.	✓
The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to (board) members.	✓
The body has put in place arrangements to maintain a sound system of internal control.	✗
The body has put in arrangements to manage its significant business risks.	✓
The body has put in arrangements to manage and improve value for money.	✓
The body has put in place a medium term financial strategy, budgets and a capital programme that is soundly based and designed to deliver its strategic priorities.	✓
The body has put in place arrangements to ensure that its spending matches its available resources.	✓
The body has put in place arrangements for monitoring performance against budgets.	✓
The body has put in place arrangements for the management of its asset base.	✓
The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	✓

*Audit Commission*

- 29 In addition to the summary comments in Table 3, we have some more detailed observations to draw to your attention below.

### Strategic objectives and performance management

- 30 There is a long standing activity performance framework, especially in the operational areas of the organisation. Work is currently underway to develop the golden thread of cascaded performance information through a formal embedded performance management framework, which links corporate priorities through service plans to the individual.

#### **Recommendation**

*R3 Continue to develop performance management processes so that linkages between corporate priorities and service plans are embedded throughout the organisation.*

### Internal control

- 31 The Authority has not yet established adequate arrangements for internal control. This is identified in the Director of Internal Audit's annual report and was reported in the Authority's SIC. The assurance framework that supports the SIC is also yet to be fully embedded into the Authority's business processes.
- 32 The Authority has an internal audit function that operates in line with the CIPFA code of audit practice. Standing orders, standing financial instructions and a scheme of delegation are all in place and have been approved by members. Arrangements are in place to ensure adherence, but this has not prevented occurrences where significant expenditure has been made outside of delegated limits. Business Continuity Plans are required to be in place within each OCU. However, a recent Internal Audit report identified that 58 per cent of OCUs did not have arrangements in place.

#### **Recommendations**

*R4 Implement the action plans to address the internal control weakness identified in the statement of internal control.*

*R5 Ensure that business continuity plans are in place across all OCUs*

### Improving value for money

- 33 Unit costs are not significantly higher than the costs of other forces once external local factors are taken into account and performance shows a general improvement across a wide range of assessment criteria. Areas of high spending generally reflect policy decisions. However, there are some areas of higher spending, such as police officer overtime, that do not clearly link to enhanced performance levels or reflect policy decisions.

- 34 Significant unintended high spending is identified and there are plans to address it. Authority members, senior officers and managers identify and pursue opportunities to manage and reduce costs, or improve quality within existing costs. While there is evidence of a positive impact of this work on achieving better value for money, this is not yet consistent across the organisation.

**Recommendation**

*R6 Deliver the managerial and cultural changes necessary to mainstream value for money effectively within the Service.*

**Financial strategy**

- 35 The Authority has a Medium Term Financial Strategy (MTFS) which is linked to its corporate objectives. There are robust systems of communication and consultation within the Authority and with key stakeholders. Areas of development on the MTFS include embedding a process so that Authority and force business planning is integrated into the MTFS, and to improve the links between the MTFS and other internal strategies such as HR and IT.

**Recommendation**

*R7 Embed processes so that MPS and MPA business planning drives the MTFS and resource allocations.*

**Budget setting and monitoring**

- 36 The MPA/MPS has a sound budgetary control process and has effective procedures in place to identify variances in expenditure and to provide flexible reports. The overall budget was agreed in a timely manner and budget monitoring is reported to senior management and the MPA on a regular and timely basis. This level of scrutiny has ensured that areas of overspend have not had a negative impact on service priorities.
- 37 In June 2006, the Treasurer reported a provisional spend of £2,724m in 2005/06, an underspend against the budget of £7.5m. This allowed for contributions to earmarked reserves of £11.5m at 31 March 2006. The balance on the general reserve of £28.4m continues to represent just over one per cent of net revenue expenditure, the minimum necessary in the Treasurer's view to mitigate the risks of unplanned expenditure. The Treasurer has proposed to increase the general reserve to a level nearer to two per cent of net revenue expenditure in the medium term.
- 38 The Treasurer has reported continued financial pressures in 2006/07, reflecting in particular the costs of counter-terrorism operations. A specific emergency reserve of £20m was established at 31 March 2006 to help fund such pressures, but the Authority will need to respond on an ongoing basis to maintain its financial stability.



## Asset management

- 39 The MPA/MPS have estates, transport services and IM&T strategies that are reported to the Authority and senior management on a regular basis. The IM&T strategy is, however, weakened by a lack of performance measures which makes it difficult for the MPS to identify how its IM&T service adds value and links to the corporate policing objectives. The IM&T strategy is currently in the process of being reviewed. There are plans to implement a medium term strategy that identifies how the Authority's key business systems can be integrated. This remains an aspiration at present.

### **Recommendation**

*R8 Develop a suite of performance measures to enable the MPS to identify and monitor how its IM&T service links to corporate policing objectives.*

## Probity

- 40 The MPA has a number of arrangements in place to promote and ensure probity and propriety in the conduct of its business. A code of conduct for members has been adopted. There are arrangements to establish registers of interests, gifts and hospitality across the MPA and MPS. However, functional registers are not in place in every OCU.

### **Recommendation**

*R9 Ensure that all OCUs have registers of interests, gifts and hospitality in place and these are regularly reviewed.*

## Use of auditors' statutory powers

- 41 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 4 below.

**Table 4 Use of statutory powers**

No statutory reports or recommendations have been made.

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Closing remarks

- 42 This report has been discussed and agreed with the Chief Executive and the Treasurer of the MPA and the Head of Strategic Finance of the MPS. A copy of the memorandum will be presented to the Corporate Governance Committee on 22 September 2006.
- 43 The report makes a number of recommendations. An action plan is included at Appendix 7.
- 44 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

**Michael Haworth-Maden**  
**District Auditor**

September 2006

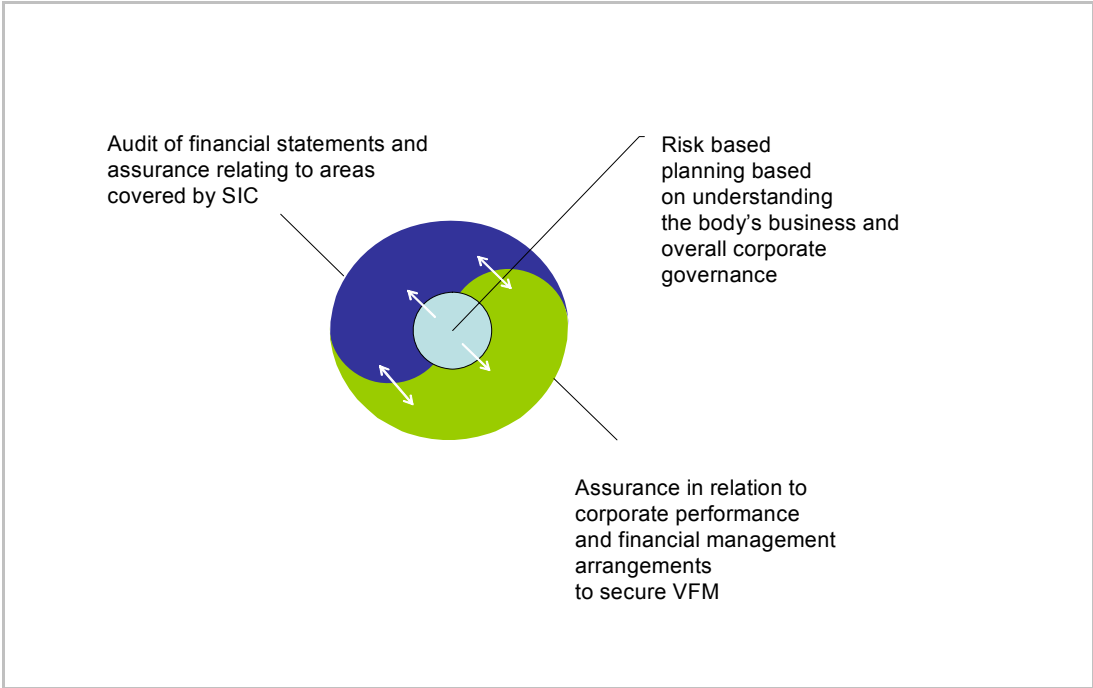
# Appendix 1 – Audit responsibilities and approach

## Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



## **Approach to the audit of the financial statements**

- 2** In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
  - the standard of the overall control environment and internal controls;
  - reliance on internal audit;
  - the likelihood of material misstatement occurring from material information systems; or a material error failing to be detected by internal controls;
  - any changes in financial reporting requirements; and
  - the effectiveness of procedures for producing the financial statements and supporting material.
- 3** The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The keys risks that we identified include:
  - preparation for the Whole of Government Accounts required the earlier production of your Statement of Accounts in 2005/06; and
  - some disclosures in the 2003/04 accounts did not meet the requirements of the 2003 Statement of Recommended Practice (SoRP).

## **Approach to audit of arrangements to secure value for money**

- 4** The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
  - corporate performance management; and
  - financial management arrangements.
- 5** Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
  - the Authority's whole system of internal control as reported in its statement on internal control;
  - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
  - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
  - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
  - other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 5**

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit and inspection plan	July 2005	July 2005	Corporate Governance Committee
Use of resources	February 2006	February 2006	Management
Interim audit memorandum	May 2006	May 2006 (draft)	Management
Annual governance report	September 2006	September 2006	Corporate Governance Committee
Opinion on financial statements	September 2006	September 2006	The Authority
Value for money conclusion	September 2006	September 2006	The Authority
Police Use of Resources Evaluation	October 2006	TBC	Management
Final accounts memorandum	November 2006	TBC	Management
BVPP report	December 2005	December 2005	The Authority
Annual Letter	December 2006	TBC	Corporate Governance Committee
Performance reports	Various	Various	Management

## Appendix 3 – Fee information

**Table 6**

<b>Fee estimate</b>	<b>Plan 2005/06</b>	<b>Actual 2005/06</b>
Audit		
Accounts	£263,000	£263,000
Use of resources	£253,000	£253,000
Total audit fees	£516,000	£516,000
Voluntary improvement work	-	-



## **Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity**

- 1** We are required by the standard to communicate following matters to the Audit Committee:
  - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2** 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.

# Appendix 5 – Independent auditor’s report to the Metropolitan Police Authority

## Opinion on the financial statements

I have audited the financial statements of the Metropolitan Police Authority for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Revenue Account, the Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the Metropolitan Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of Chief Finance Officer and auditor

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005/06 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you our opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005/06.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulation 2003’, published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. I am not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion, the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005/06, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Michael Haworth-Maden  
District Auditor,  
Audit Commission,  
1st Floor, Millbank Tower,  
Millbank, SW1P 4HQ

Xx September 2006

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority’s responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## **Conclusion**

I have undertaken our audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for police authorities specified by the Audit Commission and published in August 2005, in all significant respects, the Metropolitan Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006, except for putting in place arrangements to maintain a sound system of internal control.

## **Best Value Policing Plan**

I issued my statutory report on the audit of the Authority’s best value policing plan for the financial year 2005/06 in December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Haworth-Maden  
District Auditor,  
Audit Commission,  
1st Floor, Millbank Tower,  
Millbank, SW1P 4HQ

Xx September 2006

## Appendix 6 – Letter of representation

To: Michael Haworth-Maden, District Auditor  
Audit Commission  
1st Floor Millbank Tower  
Millbank  
London SW1 4PQ

### **Metropolitan Police Authority - Audit for the year ended March 31, 2006.**

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other Members and officers of the Authority, the following representations given to you in connection with your audit of the financial statements for the Metropolitan Police Authority ('the Authority'), for the year ended 31 March 2006.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Statement of Recommended Practice and wider UK accounting standards. We have considered and approved the financial statements.

### **Fraud**

We understand that;

- the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- we are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- we have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements

**Metropolitan Police Authority**

- we have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- we have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

### **Law, regulations and codes of practice**

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2006.

### **Related party transactions**

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Board meetings, have been made available to you.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Irregularities**

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

### **Post balance sheet events**

Since the date of approval of the financial statements by Members, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

### **Group Accounts**

There are no relationships that require group accounting under the Code of Practice on Local Authority Accounting in the United Kingdom 2005.

### **Explanation for uncorrected misstatements/significant qualitative aspects of financial reporting issues**

MPA to add a section here to explain the reason for not adjusting for the significant qualitative aspect of reporting (set out in paragraphs 18/19 of this report). We ask that the letter specifically details the qualitative aspect of reporting, either in the body of the letter or in a document appended to it.

Signed on behalf of the Metropolitan Police Authority

Signed

Name

Yours sincerely

On behalf of the Authority

**Metropolitan Police Authority**



## Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R1 The Authority should amend its capital commitment note so that it accurately reflects the value of contracts that it is formally contracted into.					
10	R2 Review and improve the controls and processes in place to account for fixed assets.					
15	R3 Continue to develop performance management processes so that linkages between corporate priorities and service plans are embedded throughout the organisation.					
15	R4 Implement the action plans to address the internal control weakness identified in the statement of internal control.					
15	R5 Ensure that business continuity plans are in place across all OCUs					
16	R6 Deliver the managerial and cultural changes necessary to mainstream value for money effectively within the Service.					
16	R7 Embed processes so that MPS and MPA business planning drives the MTFS and resource allocations.					
17	R8 Develop a suite of performance measures to enable the MPS to identify and monitor how its IM&T service links to corporate policing					

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	objectives.					
17	R9 Ensure that all OCUs have registers of interests, gifts and hospitality in place and these are regularly reviewed.					