

Annual Governance Report

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Annual Governance Report

Metropolitan Police Authority

Audit 2006/07

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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 document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the key issues deriving from our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in the case of the Metropolitan Police Authority, the Corporate Governance Committee) at the time they are considering the financial statements. Recommendations are brought together in an action plan at Appendix 1.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standard on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. 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.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Corporate Governance Committee on 14 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the management representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in accordance with the plan that we presented to the Authority in April 2006, as updated by the supplementary opinion audit planning letter issued on 20 July 2007. We have issued separate reports during the year having completed specific aspects of our programme, and these are listed at Appendix 3.

Key messages

Financial statements

- 6 Our work on the financial statements is nearing completion and we expect to meet the requirements of the Accounts and Audit Regulations and give an opinion by 30 September 2007.
- 7 The overall conclusions, based on the work we have completed to date, are that:
 - the main financial statements present fairly the financial transactions of the Authority;
 - the pension fund financial statements present fairly the financial transactions of the pension fund; and
 - the Statement of Internal Control (SIC) has been prepared in accordance with proper practice as specified by CIPFA and is consistent with the findings from our audit.
- 8 The audit is substantially complete but should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of the Corporate Governance Committee (or alternative arrangements as appropriate).
- 9 Based on our current audit work, we propose issuing an unqualified audit opinion by 30 September 2007 (a draft report is attached at Appendix 4).

Use of resources

- 10 Based on our current findings, we intend to maintain our qualified conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources (a draft report is attached at Appendix 4). Although improvements have been identified across the range of the Authority's arrangements, there remain acknowledged weaknesses in internal control.
- 11 We are therefore satisfied that, having regard to the criteria for police authorities specified by the Audit Commission, 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 2007, except for putting in place arrangements to maintain a sound system of internal control.

Audit status

- 12 At the date of issue of this report, our detailed audit of the financial statements is substantially complete. In the event that further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of the Corporate Governance Committee (or alternative arrangements as appropriate).
- 13 In addition, there are several performance reviews which are either currently in discussion with officers or have been deferred at the Authority's request.

Accounts and Statement on Internal Control

- 14 Based on the audit work undertaken to date, we have the following matters to draw to the Corporate Governance Committee's attention.

Unadjusted misstatements

- 15 We are required to bring to your attention misstatements that have not been corrected by management where we consider them relevant to your wider governance responsibilities. There are no unadjusted misstatements to report to members.

Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded in full at Appendix 7 and we provide an analysis of the most significant items in the table below for your attention.

Table 1 Adjusted misstatements and amendments to the financial statements

Listed below are details of material and significant adjustments. For clarity the table deals with the impact on the primary statements although in most cases there will be related adjustments in other statements / notes (particularly the Statement of Total Movement in Reserves).

| Issue | Statement | Line | Change (£000s) | Impact on surplus |
|--|---------------|-----------------------------|----------------|-------------------|
| Deferred Government Grants A change in recommended accounting practice requires that deferred government grants be treated as liabilities rather than as non cash-backed accounting reserves, as had previously been the case. | Balance Sheet | (Non cash-backed) Reserves. | -£71,017 | None. |
| | | Liabilities | +£71,017 | None. |

Accounting practices

- 17 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting. More detailed comments deriving from the audit will be reported to officers once the opinion has been given. The details on two issues we wish to raise are set out below.

Accounting for police top-up grant

- 18 The Police Pension Fund Regulations 2007 (the Regulations) make provision for the payment of top-up grants to police authorities and specify that the grant shall be payable to the Police Fund rather than to the Police Pension Fund Account. These Regulations were issued after the Authority's accounts were approved, and furthermore, the accounting treatment prescribed therein differs from that prescribed in The Code of Practice on Local Government Accounting in the United Kingdom: A Statement of Recommended Practice (the 2006 SORP).
- 19 The Authority, however, adopted the treatment set out in the draft Regulations. As such, no amendments have been required to the Authority's financial statements for the £38 million top-up payments recorded therein following the enacting of the Regulations. The approach taken by the Authority is commended.

Accounting for fixed assets

- 20 Last year we reported on a number of material adjustments that were necessary due to errors in the compilation of the disclosure on fixed assets. Improvements have been made in this aspect of the Authority's accounts process and no large adjustments are required this year. Further improvements are possible, and we would encourage officers to undertake some additional measures at next year's accounts closedown to ensure the disclosures are accurate and well evidenced to permit an expeditious audit. Some amendments were made within the fixed assets note this year, but there is no impact on the valuations reported in the balance sheet.

Recommendation

R1 Continue to improve the presentation of fixed assets information to facilitate an expeditious audit.

Systems of internal control

- 21 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. We do not provide 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.

Bank account reconciliations

- 22 The cash book to bank reconciliation is a fundamental element of the Authority's internal control arrangements and an important check against large-scale fraud. The Authority's main bank reconciliation for the year ended 31 March 2007 is complete as at 31 March 2007. However, the Authority was unable to maintain prompt and regular controls over this reconciliation throughout 2006/07, such that for a period from July 2006 to February 2007 the reconciliation was not fully completed. The main reason for this was reported to be a technical IT interface problem, and officers state that they undertook sufficient additional work to investigate and resolve anomalies.
- 23 Officers have accepted our recommendation to ensure that the main bank reconciliation is performed and reviewed on a monthly basis.

Recommendation

R2 The monthly bank reconciliation should be performed and reviewed promptly on an ongoing monthly basis.

Payroll controls

- 24 Following the change of payroll provider, the Authority experienced a number of problems in achieving a satisfactory level of internal control over payroll transactions during 2006/07. Key areas of concern included:
- reviewing payroll control accounts monthly;
 - prompt and regular reconciliations of payroll bank accounts; and
 - payroll output checks.
- 25 Officers worked extensively with the payroll provider to strengthen the control environment to a satisfactory level. Required year-end reconciliation, review and checking processes at 31 March 2007 were actioned. Officers report that suitable controls are now also operating effectively in 2007/08 on an ongoing basis.

Recommendation

R3 The processes necessary to provide effective internal control over the Authority's payroll system should be applied and reviewed stringently in 2007/08.

Statement of internal control (SIC)

- 26 We have reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters to report to members.

Other matters

- 27 Other auditing standards require us to communicate with you in other specific circumstances including:
- 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.
- 28 We have no matters to bring to members attention in respect of these issues.

Anti-fraud arrangements

- 29 We have carried out sufficient work to gain assurance that there are no material matters to report to members concerning the arrangements to prevent and detect fraud and corruption over the Authority as a whole.
- 30 With reference to financial transactions within covert policing funds, we note the action being taken to improve governance arrangements within this area, notably the Covert Finance Strategy introduced in 2006. The Authority is encouraged to continue to strengthen arrangements to improve accountability over this area of police activity.

Use of resources

Value for money conclusion

- 31** The Code requires us to 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 resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Authority's performance and financial management arrangements across twelve criteria specified by the Audit Commission.
- 32** 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.
- 33** We are satisfied that, having regard to the criteria for police authorities specified by the Audit Commission, 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 2007, except for putting in place adequate arrangements to maintain a sound system of internal control.
- 34** Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8. The more important findings are set out in the paragraphs below.

Internal control

- 35** As referred to above, and also reported in 2005/06, we have been unable to conclude that the Authority had adequate arrangements to maintain internal control in place in 2006/07. This is also the conclusion of the Director of Internal Audit in his annual report and is reflected in the Authority's Statement of Internal Control.
- 36** Weaknesses in arrangements to ensure a sound system of internal control included:
- a failure to maintain prompt and regular controls in year over key financial accounting processes, such as the bank reconciliation and the agreement of some feeder systems to the main ledger (as set out in more detail above); and
 - compliance failures with regard to the Safer Neighbourhoods estates procurement function, as reported to members previously.

- 37 Actions taken to address the required improvements with regard to the bank and feeder system reconciliations are set out in 'systems of internal control' above. Action has also now been taken to regularise the procurement process for the provision of Safer Neighbourhoods' estates, including assessing value for money, and to delivering ongoing compliance with standing orders and required procurement practice.

Recommendations

- R4 Implement the action plans to strengthen the controls where weaknesses were identified in the Statement of Internal Control.
- R5 Ensure that arrangements are in place and operating consistently to ensure that all relevant rules and regulations and internal policies and procedures are followed and that all expenditure is lawful.

Financial management

- 38 Financial management arrangements are assessed as adequate and the overall financial position is sound. Levels of reserves comfortably meet the Authority's stated policy, with the general revenue reserve and contingency reserve totalling £60 million. Other earmarked reserves amount to a further £70 million. The position will need to be reviewed regularly to maintain reserves at an appropriate level.
- 39 Improvements in financial management arrangements are being introduced and now require to be embedded. Medium term financial planning and corporate strategies and policing objectives are linked and integration between business and financial planning is improving. Work continues to demonstrate clearly linkS between budgets and operational activity indicators. Earmarked reserves exist for projects that derive from corporate objectives and service priorities.
- 40 Overall budgetary arrangements are sound. A net underspend of £5.1 million was achieved in 2006/07 against an overall net budget of £2,882 million, which required £68 million of efficiency savings. The more significant budget variations concerned underspends in police pay and additional income, while overspends occurred in respect of overtime, transport and supplies and services. Internal financial reporting highlights key areas of overspend, which are then subject to risk assessments to decide what mitigating action to take. Financial system improvements are being developed in consultation with users.
- 41 Asset management arrangements are developing and there is now clear responsibility within senior management for key aspects of asset management, such as estates. Evaluation of how assets deployed contribute to policing objectives would be improved through expanded use of performance measures, benchmarking and user surveys.

Improving value for money

- 42 There have been improvements in the arrangements for monitoring and reviewing value for money within the Authority and across the Service in 2006/07, such as, for example, the development of the Productivity Strategy Board with its remit to ensure the efficient and effective use of resources. Efficiency targets for 2006/07 have been exceeded and savings from procurement of £35m are targeted over the next three years.
- 43 HMIC reports that performance continues to show general improvement across a range of criteria and the direction of travel is generally positive. There have been successes in priority areas: the safer neighbourhoods project has contributed to improvements in public confidence and the MPS achieved the biggest improvement in citizen focus, as indicated through satisfaction rates, in the country.
- 44 Work is progressing on understanding the key factors which impact on costs and thus the potential for future efficiencies. The value of comparative information is now recognised and identified as an area for development and business planning arrangements are evolving to bring together cost and performance information.

Recommendations

R6 Build on improved management arrangements to drive a better understanding of costs and the potential for future efficiency gains.

Next steps

- 45 We are drawing these matters to the Corporate Governance Committee's attention so that:
- you can consider them before the financial statements are approved and certified; and
 - the management representation letter (see below) can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements.

Management representation letter

- 46 Auditors are required to obtain written confirmation of certain representations from management before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.

- 47 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 48 A recommended draft of the management representation letter has been attached as Appendix 5. Please note that this letter covers the Authority's main financial statements and the pension fund accounts. The letter should be signed by the Treasurer and the Chief Executive, approved at the Corporate Governance Committee meeting which receives this report and must be received by the Audit Commission before we are able to give an opinion.

Audit fee update

- 49 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the estimated outturn fee against that plan:

| | Plan 2006/07 | Actual 2006/07 |
|--|-------------------------|---------------------------|
| | £ | £ |
| Financial statements and Statement on Internal Control (including WGA) | 287,700 | 287,700 |
| Use of Resources | 242,000 | 242,000 |
| Total Audit Fees | 529,700 | 529,700 |

- 50 Our audit fee has been contained within the agreed audit plan.

Closing remarks

- 51 This report was discussed and agreed with the Chief Executive, the Treasurer and the Director of Strategic Finance on 30 August 2007. The report makes a number of recommendations. An action plan is included at Appendix 1, which provides for responses from management and indicative target dates for the implementation of recommendations.
- 52 Officers at the Metropolitan Police Authority and Service take a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation to officers for their assistance and co-operation as we carry out our work.

Appendix 1 – Action plan

| Page/Rec No. | Recommendation | Priority 1 = Low 2 = Medium 3 = High | Responsibility | Agreed | Comments | Anticipated Implementation Date |
|--------------|--|---|----------------|--------|----------|---------------------------------|
| 10 / 1 | Continue to improve the presentation of fixed assets information to facilitate an expeditious audit. | 1 | | | | |
| 11 / 2 | The monthly bank reconciliation should be performed and reviewed promptly on an ongoing monthly basis. | 3 | | | | |
| 12 / 3 | The processes necessary to provide effective internal control over the Authority's payroll system should be applied and reviewed stringently in 2007/08. | 3 | | | | |

20 Annual Governance Report | Appendix 1 – Action plan

| Page/Rec No. | Recommendation | Priority 1 = Low 2 = Medium 3 = High | Responsibility | Agreed | Comments | Anticipated Implementation Date |
|--------------|--|---|----------------|--------|----------|---------------------------------|
| 14 / 4 | Implement the action plans to strengthen the controls where weaknesses were identified in the Statement of Internal Control. | 3 | | | | |
| 14 / 5 | Ensure that arrangements are in place and operating consistently to ensure that all relevant rules and regulations and internal policies and procedures are followed and that all expenditure is lawful. | 3 | | | | |
| 15 / 6 | Build on improved management arrangements to drive a better understanding of costs and the potential for future efficiency gains. | 2 | | | | |

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1** We are required to communicate the following matters to those charged with governance:
 - 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 audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

Table 2 Main outputs from the audit

| Planned output | Start date | Draft report date | Addressee |
|---|--------------------------|--------------------------|--------------------------------|
| Audit Plan | February 2006 | March 2006 | Treasurer |
| Supplementary opinion audit planning letter | N/A | July 2007 | Treasurer |
| Interim Audit Memorandum | January 2007 | April 2007 | Treasurer |
| Report on Financial Statements to those Charged with Governance | August 2007 | August 2007 | Corporate Governance Committee |
| Opinion on Financial Statements | June 2007 | Due September 2007 | Members |
| Final Accounts Memorandum | June 2007 | Due October 2007 | Treasurer |
| Police use of resources | May 2007 | July 2007 (Phase I) | Treasurer |
| VFM Conclusion | April 2006 | Due September 2007 | Members |
| Managing police officers' overtime | July 2006 | September 2007 | Management |
| Benefits Realisation | April 2007 | September 2007 | Management |
| Asset management and estates strategy | Deferred to January 2008 | TBC | Management |
| Implementing C3i | July 2007 | Due October 2007 | Management |
| Partnerships | August 2007 | Due December 2007 | Management |
| Data quality / NCRS | January 2007 | July 2007 | Management |
| Annual Audit Letter | October 2007 | Due November 2007 | Members |

Appendix 4 – Proposed auditor’s report

Independent auditor’s report to Members of the Metropolitan Police Authority

Opinion on the financial statements

I have audited the financial statements and the police pension fund accounting statements of the Metropolitan Police Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes. The police pension fund accounting statements comprise the Fund Revenue Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting 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 Commission¹.

Respective responsibilities of the Treasurer and auditor

The Treasurer’s responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 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 my opinion as to whether the financial statements and the police pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- the financial position of the Authority and its income and expenditure for the year; and
 - the financial transactions of its police pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
-

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 Regulations 2003’ issued in 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 I am aware of from my audit of the financial statements. I am not required to consider, nor have I 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 my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information

Basis of audit opinion

I conducted my 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 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and

- The police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the police pension fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Michael Haworth-Maden

District Auditor

Audit Commission

1st Floor, Millbank Tower

Millbank

London SW1P 4HQ

xx September 2007

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 principal local 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 (‘Policing London 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.

Qualified conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in August 2005, I am satisfied that, 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 2007, except for putting in place adequate arrangements to maintain a sound system of internal control.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan (Policing London Plan) for the financial year 2006/07 in November 2006. 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

London SW1P 4HQ

xx September 2007

Appendix 5 – Management representation letter

Metropolitan Police Authority

Metropolitan Police Authority Pension Fund

Audits for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Metropolitan Police Authority and Service, the following representations given to you in connection with your audit of the Authority's financial statements and that of the pension fund for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you. .

Specific representations

Covert accounts

I confirm that the financial transactions maintained for police covert activity are materially accurate.

Bank accounts

I am not aware of any bank accounts held by the Authority that have not been disclosed in the financial statements.

Asset values

The Authority has no plans or intentions nor as taken any decisions that may alter in material terms the carrying value or classification of assets and liabilities reflected in the financial statements.

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 public members meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

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.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

Irregularities

I acknowledge my 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 the Corporate Governance Committee on 15 June 2007 and the full Authority on 28 June 2007, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of the Metropolitan Police Authority

Signed
Name
Position: Treasurer
Date
Signed
Name
Position: Chief Executive
Date
Signed

Appendix 6 – Summary of unadjusted misstatements

- 1 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements to be reported to members.

Appendix 7 – Summary of adjusted misstatements

The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

| Adjusted misstatements | Nature of Adjustment | Income and Expenditure Account | | Balance Sheet | |
|---|--|--------------------------------|----------|---------------|----------|
| | | Dr £000s | Cr £000s | Dr £000s | Cr £000s |
| Tangible Fixed Assets | The Authority amended the Fixed Assets note to separately disclose fixed asset additions and transfers from non-operational assets to operational assets. Amending the fixed assets note to show these items separately is a presentational adjustment and does not affect the I&E Account or the Balance Sheet net book value of fixed assets. | n/a | n/a | n/a | n/a |
| Deferred Government Grants | The Authority amended the Balance Sheet to show Deferred Government Grants as a liability rather than as a reserve to comply with a change in this year's SORP. | n/a | n/a | 71,017 | 71,017 |
| Statement of Total Recognised Gains and Losses | The Authority amended the Statement of Total Recognised Gains and Losses (STRGL) to show the I&E Account deficit of £991m as the opening figure | n/a | n/a | n/a | n/a |

| | | Income and Expenditure Account | | Balance Sheet | |
|-------------------|---|--------------------------------|------------|---------------|---------------|
| | instead of the £10m movement on the General Fund balance. This amendment was made to comply with the SORP and is presentational only. There is no impact on the I&E Account or Balance Sheet. | | | | |
| Net Effect | | nil | nil | 71,017 | 71,017 |

Appendix 8 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources.
- 2 The Code criteria are linked to the police use of resources assessment (PURE) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria are shown in the table below.

Table 3 Value for money arrangements

The Authority failed to satisfy criteria 5

| Code Criteria | Description | Associated PURE KLoEs | VFM Conclusion |
|---------------|--|-----------------------|----------------|
| 1 | The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives. | N/A | Adequate |
| 2 | 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. | N/A | Adequate |
| 3 | The body has 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 members. | N/A | Adequate |
| 4 | The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members. | LG DQ KLoEs | Adequate |
| 5 | The body has put in place arrangements to maintain a sound system of internal | 4.2 | Not adequate |

| | | | |
|----|--|-----|----------|
| | control. | | |
| 6 | The body has put in place arrangements to manage its significant business risks. | 4.1 | Adequate |
| 7 | The body has put in place arrangements to manage and improve value for money. | 5.2 | Adequate |
| 8 | The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities. | 2.1 | Adequate |
| 9 | The body has put in place arrangements to ensure that its spending matches its available resources. | 3.1 | Adequate |
| 10 | The body has put in place arrangements for managing performance against budgets. | 2.2 | Adequate |
| 11 | The body has put in place arrangements for the management of its asset base. | 2.3 | Adequate |
| 12 | The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business. | 4.3 | Adequate |

Audit Commission