

Audit Plan

June 2008



Audit Plan

Metropolitan Police Authority

Audit 2008/09

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.
- 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, 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

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.

Copies of this report

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in relation to the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 During 2008/09, the role of Relationship Manager will be replaced by a new post, responsible for leading the CAA process as this impacts on the MPA/MPS, and ensuring that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The work undertaken to fulfil our Code of Practice audit will continue to be led by the District Auditor.
- 3 As we have not yet completed the audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the Police Authority. The Audit Commission has issued a copy of the Statement to every audited body.
- 5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and our audit work is undertaken in the context of these responsibilities.
- 6 We comply with the statutory requirements governing audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 7 The Code defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Fees

- 8 The total indicative fee for the audit and inspection work for 2008/09 is £510,000 which mirrors the planned fee of £510,000 for 2007/08.
- 9 The fee is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions, in accordance with the Audit Commission's work programme and fee scales 2008/09. Further details are outlined in Appendix 2.

Table 1 Audit and inspection fee

All figures £000

Audit area	Planned fee 2008/09	Planned fee 2007/08	Page
Planning and financial statements	361	357	9
Use of resources	122	127	10
Total audit fee	483	484	
Inspection fee	27	26	11
Total audit and inspection fee	510	510	
Grant claims	3	3	15

- 10 In setting the fee, we have assumed that:
- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - internal audit undertakes appropriate work on all systems; and
 - good quality working papers and records will be provided to support the financial statements by the start of the audit.

Further details of the assumptions are outlined in Appendix 2.

- 11 The audit and inspection fee (plus VAT) will be charged in equal instalments from May 2008 to March 2009.

Specific actions the Authority could take to reduce its audit fees

- 12 The Audit Commission requires its auditors to inform an authority of specific actions it could take to reduce its audit fees. We identified the following actions the Metropolitan Police Authority could take.
- Ensure high quality working papers are in place to support our audit of the financial statements.
 - Respond promptly to requests for information.
 - Respond promptly to draft reports.

Process for agreeing any changes in audit fees

- 13 As set out in paragraph 3, we expect that the initial risk assessment may change as the year progress. Where this is the case, we will discuss this in the first instance with the Treasurer. Any changes to the plan will then be reported to the Corporate Governance Committee.

Auditor's report on the financial statements

- 14 We are required to issue an audit report giving:
- an opinion on whether the financial statements present fairly the financial position of the Authority as at 31 March 2009; and
 - a conclusion as to whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

Financial statements

- 15 We have not undertaken a detailed risk assessment for our audit of the financial statements as many of the specific risks which may become apparent will do so after we have completed our 2007/08 audit. We will issue a separate opinion audit plan for our audit of the financial statements in December 2008.
- 16 At this stage we are aware of the following risks that are likely to impact on the audit of the financial statements.
- the quality of working papers has improved in recent years and will need to be maintained; and
 - the accounting arrangements for fixed assets are complex and have proved difficult to audit efficiently in recent years - clear working papers and audit trails are required.

Use of resources - value for money conclusion

- 17 In reaching the value for money conclusion, we will review evidence that is relevant to the Authority's performance management and financial management arrangements.
- 18 The key risks highlighted from audit planning are summarised in the table below with details of planned work to mitigate the risks. More details of the risk assessment are outlined in Appendix 3.

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
Supporting new Authority members	Review of arrangements in place to ensure Authority members are equipped to scrutinise and provide appropriate challenge to senior management.
Achieving value for money	Undertake a study to assess the effectiveness of the MPS strategic approach to value for money.

Police use of resources (PURE)

- 19 The Audit Commission has specified that auditors will complete a PURE assessment for 2008/09. This will be a new assessment forming part of the CAA framework for 2009.
- 20 The approach to the new use of resources assessment has been subject to consultation and will be finalised after April 2008. Further information about our PURE scope for 2008/09 will be provided once the approach has been confirmed. For each of the significant risks identified in relation to the use of resources work, we consider the arrangements put in place by the Authority to mitigate the risk and plan the work accordingly.
- 21 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through our continuous planning process as the year progresses.
- 22 We will report details of the scores and the judgements made to the MPA. The scores will be accompanied, where appropriate, by recommendations for improvement.

- 23 Our scores and judgements are reported to the Audit Commission and shared with HMIC.

Other mandated work

- 24 As part of the audit, the mandated work programme also comprises:
- data quality; and
 - whole of government accounts.

Appendix 1 provides more details of the work to be undertaken in each of these areas.

Inspection

- 25 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be introducing Comprehensive Area Assessment (CAA). A key element of this revised approach is the appointment of a new post to replace the role of Relationship Manager. As stated in the Introduction, the new post will ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The post is funded from our fee for inspection.

Initial Performance Assessment: Direction of travel

- 26 In 2004, we reported the outcome of the Audit Commission's Initial Performance Assessment (IPA) of the MPA and the other members of the GLA group. Subsequently, we have monitored progress against the key plans and actions undertaken to secure improvement. We have developed the approach to inspection activity, taking forward the findings of the IPA. Our approach is consistent with the local government approach (where appropriate), proportionate and tailored to reflect the unique nature of the MPA and the other members of the GLA group, as well as any ongoing national developments.
- 27 The risk-based approach for 2008/09 comprises a non-scored direction of travel (DoT) assessment, based on the 2007/08 local government Key Lines Of Enquiry (KLOEs) and tailored individually to the context of the MPA.

Advice and assistance

- 28 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' to another public body where this is requested.
- 29 If you wish the Commission to provide additional services under these powers, please contact us.

The audit team

- 30 The key members of the audit team for the 2008/09 audit are shown in the table below.

Table 3 Audit team

Name	Contact details	Responsibilities
Les Kidner District Auditor	l-kidner@audit-commission.gov.uk 0844 798 2303	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and Corporate Governance Committee.
Ken Davis Head of Assessment	k-davis@audit-commission.gov.uk 0844 798 2815	Leads the CAA process as it affects the MPA/MPS, and ensure that the combined inspection programme across all inspectorates is tailored to local area risks.
Martin Searle Senior Audit Manager	m-searle@audit-commission.gov.uk 0844 798 2678	Manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer and MPS Director of Strategic Finance.
Tom Edgell Audit Manager	t-edgell@audit-commission.gov.uk 0844 798 2625	Works to the Senior Audit Manager and controls the day-to-day audit.
Jessica Crocker Team Leader	j-crocker@audit-commission.gov.uk 0844 798 2618	Leads on opinion work and non-vfm element of PURE assessment.

Quality of service

- 31 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor in the first instance. Alternatively, you may wish to contact the Regional Director, Brian Willmor via 0844 798 2301.

- 32 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About', which is available from the Commission's website or on request.

Planned outputs

- 33 Reports will be discussed and agreed in accordance with agreed protocols (currently being revised) and issued to Members as required.

Table 4 Planned outputs

Planned output	Indicative date
Audit and Inspection Plan	April 2008
Opinion	
Opinion audit plan	December 2008
Interim audit memorandum	May 2009
Annual governance report	September 2009
Auditors report giving an opinion on the financial statements and value for money conclusion	September 2009
Final accounts memorandum	November 2009
Use of Resources	
PURE report	October 2009
Data Quality	November 2009
Supporting members	To be discussed
Improving Value for Money	To be discussed
Overall	
Annual Audit Letter (including Direction of Travel)	November 2009

Appendix 1 – Work under the Code of Audit Practice

Financial statements

- 1 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 We are required to issue an opinion on whether 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 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year.
- 3 We are also required to review whether the Annual Government Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Government Statement is misleading or inconsistent with our knowledge of the Police Authority.

Whole of government accounts

- 4 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

Value for money conclusion

- 5 The Code requires us to issue a conclusion on whether the Police Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 6 In meeting this responsibility, we will review evidence that is relevant to the Police Authority's corporate performance management and financial management arrangements and draw substantially from the PURE assessment. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 7 We will also follow up work from previous years to assess progress in implementing agreed recommendations.

Police use of resources assessment

- 8 The approach to the use PURE assessment for 2008/09 has been subject to a consultation process which ended in February 2008. The Commission is considering the responses to the consultation and will finalise the assessment framework after April 2008.
- 9 The Commission proposes that the assessment will be based upon the evidence from three themes:
 - managing money;
 - managing the business; and
 - managing other resources.
- 10 The detailed KLoEs which will form the basis of these assessments will be prepared later in 2008, but one change is that data quality will become an element of the Use of Resources framework from 2008/09.

Data quality

- 11 Auditors will be required to undertake audit work in relation to data quality which will be directly linked to the VFM conclusion and the PURE assessment. The approach to reviewing police data quality has been developed by the Commission and involves a review of the management arrangements in place.

National Fraud Initiative

- 12 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

Certification of grant claims and returns

- 13 We are required to certify one claim on behalf of the Authority. For completeness, the projected fee of £3k is recorded in our fee analysis.

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that my work helps you to improve.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying at the Police Authority with reference to:
 - our cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with officers;
 - liaison with internal audit; and
 - the results of other review agencies work where relevant.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments which may have an impact on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our opinion audit;
 - good quality and timely working papers and records will be provided to support the financial statements by the start of the audit;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; or
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a breakdown of the audit and inspection fee for 2008/09.
- 7 The fee (plus VAT) will be charged in equal instalments from May 2008 to March 2009.

Table 1 Audit and inspection fee

All figures £000

Audit/inspection area	Planned fee 2008/09	Planned fee 2007/08	Paragraph (Appx 1)
Planning and financial statements *	361	357	1-4
Use of resources (PURE)	100	127	5-10
Data quality	22	In use of resources	11
Direction of travel and relationship management	27	26	Main text 25-27
Total audit and inspection fee	510	510	
Grant claims	3	3	13

* includes Whole of Government Accounts work

Appendix 3 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Supporting members				
<p>Police authority Members play a vital role in holding the force to account and challenging management to achieve better value for money. The size of the MPS creates unique challenges to understanding the organisation and its risks, and to ensure that policies and procedures are embedded and understood in practice. Members need to be supported to enable them to carry out these roles effectively, and as a significant number of new members will take post in 2008, this represents a particular risk and challenge for the MPA to ensure it has the capacity to carry out this role effectively.</p>	<p>The MPA has a programme for training and developing members in place and is currently considering ways to improve this.</p>	<p>Yes</p>	<p>Review of arrangements in place to ensure Authority members are equipped to scrutinise and provide appropriate challenge to senior management.</p>	<p>VfM conclusion, via PURE KLOE 4.2 (the Authority has arrangements in place to ensure a sound system of internal control) and 5.2 (the Authority monitors and reviews value for money).</p>

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Achieving and scrutinising value for money				
<p>The MPA /MPS faces a challenging agenda to demonstrate it is achieving value for money particularly in terms of improved outcomes.</p> <p>This has been a recurring finding from our audit work which is why we believe a review of the MPS' strategic approach to value for money would be beneficial.</p>	<p>The MPA and MPS have a number of mechanisms in place to review progress.</p> <p>We will also draw on relevant work by HMIC and other external agencies as appropriate.</p>	<p>Yes - the latest PURE score remains at 2.</p>	<p>Assess the effectiveness of the MPS strategic approach to value for money. Is this sufficiently clear to permit effective scrutiny by the MPA? Are targets and outcomes effective in providing focus for management and the MPA?</p> <p>We would look to probe the findings by reviewing the reported progress, outcomes and benefits achieved with respect to a specific initiative. (to be discussed) We would also assess the arrangements against notable practice elsewhere. The study would be informed by current PURE work and that of the HMIC.</p>	<p>PURE Value for Money KLoE 5 and the value for money conclusion.</p>

Appendix 4 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 2 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of our appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the APB.
- 3 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 4 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 5 The standard 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 Corporate Governance Committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 6 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 7 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
 - The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 5 – Working together

Meetings

- 1 In order to help address my responsibilities under ISA (UK&I) 315 - understanding the entity, I will maintain my knowledge of your issues to inform my risk-based audit through regular liaison with key officers.
- 2 The meetings will be organised by the Audit Commission and our proposal for this is as follows.

Table 1 Suggested meetings with officers

MPA/MPS officers	Audit Commission staff	Timing	Purpose
Chief Executive of the MPA	District Auditor (DA), Senior Audit Manager (SAM)	Two monthly	Progress and agreement of Audit Plan, PURE and Annual Letter.
Commissioner of Police of the Metropolis (via the Commissioner's Management Team)	DA and SAM	Half yearly	To discuss the: <ul style="list-style-type: none"> • Audit Plan • Annual Audit Letter
Deputy Commissioner of Police of the Metropolis	DA and SAM	Half yearly	To discuss the: <ul style="list-style-type: none"> • Audit Plan • Annual Audit Letter
MPA Treasurer and Director of Resources. MPS	District Auditor (DA), Senior Audit Manager (SAM)	Quarterly	General update plus: <ul style="list-style-type: none"> • Audit plan • accounts progress • PURE assessment.
MPA Deputy Treasurer and Deputy Director of MPS Strategic Finance.	SAM, Audit Manager (AM) and Team Leader (TL)	As required.	Update on audit and opinion issues and PURE.
Head and Deputy Head of Internal Audit	SAM, AM and TL	Monthly	Update on audit progress and issues
Corporate Governance Committee	DA, SAM with other members of the audit team as appropriate.	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan • annual governance report • Annual Audit Letter • other issues as appropriate

Sustainability

- 3** The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.
- 4** We welcome suggestions as to how we may improve our arrangements to promote sustainability - please speak to any of our staff.