

# Opinion Audit Plan

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Metropolitan Police Authority

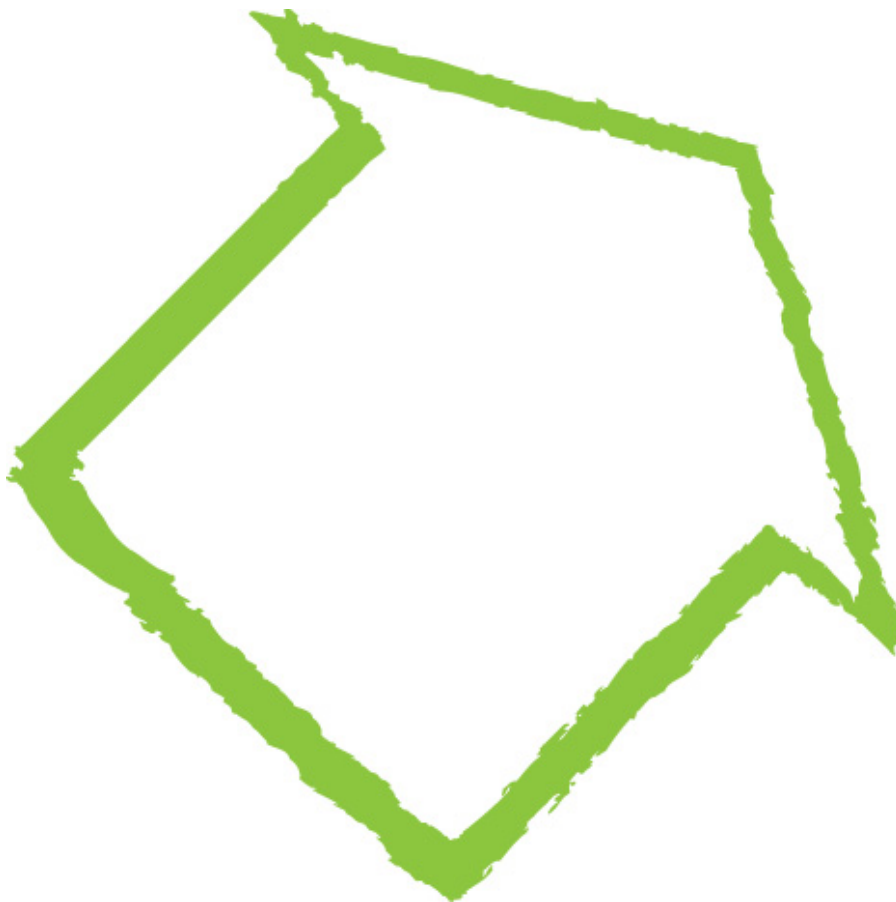
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Audit 2009/10

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June 2010

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## 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.
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# Introduction and responsibilities

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## Introduction

- 1 This plan confirms the scope of the audit work that the Audit Commission propose to undertake in order to give an opinion on the Metropolitan Police Authority's (MPA) 2009/10 financial statements. It sets out the specific risks to the opinion audit and is based on a risk-based approach to audit planning. It reflects:
  - audit work specified by the Audit Commission for 2009/10;
  - current national risks relevant to the MPA's local circumstances; and
  - your local risks.

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## Responsibilities

- 2 The audit will be conducted to ensure compliance with the statutory requirements governing the Audit Commission's audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.
- 3 Furthermore, the Audit Commission issues a Statement of Responsibilities of Auditors and of Audited Bodies which sets out the respective responsibilities of the auditor and the audited body. The Statement summarises where the different responsibilities of auditors and of the audited body begin and end. Audit work is undertaken in the context of these responsibilities. Copies of both the Statement of Responsibilities and the Code of Audit Practice are available on the Audit Commission's website at:  
<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx> (Statement of Responsibilities)  
<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codeofauditpractice.aspx> (Code).

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# Fee for the audit of the financial statements

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- 4 Based on current information I do not propose to change the indicative fee of £365,000 for the audit of the 2009/10 financial statements, as set out in my letter to the Chief Executive dated 22 April 2009 and subsequently reported to the Corporate Governance Committee on 12 June 2009.
- 5 The indicative fee was based on the following assumptions:
  - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
  - management will continue to seek improvements to closedown processes, including taking steps to address the accounting issues raised in our annual governance reports; and
  - Internal Audit undertakes appropriate work on material systems and this is available for our review in line with agreed timescales.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Treasurer and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 6 Further information on the basis for the fee is set out in Appendix 1.

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## Specific actions the MPA/S could take to reduce its audit fees

- 7 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce audit fees. Our 2008/09 Annual Governance Report and Opinion Audit Report made specific recommendations designed to help management improve accounts closedown processes, including:
  - improving the quality and timeliness of working papers to support fixed assets disclosures by minimising the use of manual adjustments to fixed asset audit trails;
  - strengthening bank reconciliation procedures to ensure that all cash balances are properly reconciled and brought to account as part of the accounts closedown; and
  - ensuring that there is adequate evidence to demonstrate that all operational covert bank accounts are included in the financial statements.

# Audit approach and identification of risks

- 8 The audit of the MPA's financial statements will be carried in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). At the conclusion of the audit an audit report will be issued which will include an opinion on whether the accounts present fairly the financial position of the Authority as at 31 March 2010. This report must be completed by 30 September 2010, and is due to be reported to the Corporate Governance Committee scheduled for September.

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## Identifying opinion audit risks

- 9 As part of the audit risk identification process, the auditor is required to gain an understanding of the entity sufficient to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. This is achieved by:
- identifying the business risks facing the MPA/S, including assessing your own risk management arrangements;
  - considering the financial performance of the MPA/S;
  - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
  - assessing the risk of material misstatement arising from the activities and controls within the MPA/S' information systems.

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## Specific risks

- 10 The following specific risks are considered to be relevant to the audit of the Authority's 2009/10 financial statements.

**Table 1 Specific risks**  
Specific opinion risks identified

Risk area	Audit response
<b>PFI Accounting</b>	
<p>Police authorities are required to account for PFI agreements in accordance with International Financial Reporting Standards (IFRS) from 2009/10 onwards. It is likely that many PFI agreements previously accounted for 'off balance sheet' will fall to be on balance sheet under IFRS. Where this is the case the PFI assets and the means by which they are funded will need to be included in the 2009/10 accounts and the 2008/09 comparative figures adjusted for consistency.</p> <p>The MPA/S has two PFI agreements: one for police stations in south-east London and one for a firearms training centre in Gravesend. We understand that both will be accounted for on the Authority's balance sheet from 2009/10 onwards.</p> <p>There is a risk that the new requirements are not properly adhered to, and the accounts misstated as a result.</p>	<p>The Audit Commission is liaising with MPA/S finance staff to agree the working papers we will need to test to confirm the Authority's PFI agreements have been accounted for correctly under IFRS. We will be using technical specialists to assist us in this complex area.</p>
<b>Fixed asset accounting system</b>	
<p>The MPS is implementing a new fixed assets accounting system to provide financial information for the 2009/10 financial statements. The introduction of a new system increases the risk that information provided for the accounts will be inaccurate, and the accounts misstated as a result.</p>	<p>The Audit Commission has devised a testing strategy to gain assurance of the accuracy and completeness of the information held on the new system and we will carry out detailed testing of fixed asset balances in the financial statements to confirm that system records are materially accurate and are supported by appropriate prime records.</p>

## Audit approach and identification of risks

Risk area	Audit response
<b>Disclosure of senior staff remuneration</b>	
<p>With effect from 2009/10, the Accounts and Audit Regulations impose a new requirement on police authorities to disclose individual remuneration details for senior employees and police officers earning over £150,000 per year. The same requirement also applies to any individuals whose remuneration is more than £50,000 per year holding defined 'senior' positions.</p> <p>The Authority will need systems in place to record and report the requisite data in order to comply with the updated regulations.</p>	<p>The Audit Commission will test the disclosure of senior employees' remuneration included in the draft accounts to confirm it has been prepared in accordance with the updated Accounts and Audit Regulations.</p>
<b>Classification of grant funded expenditure</b>	
<p>The SORP requires that grants ring-fenced to specific services or activities be classified separately to general purpose grants in the accounts. We recommended in the 2009 Annual Governance Report that the Authority review the classification of £1,661 million grant income to ensure the accounting is consistent with the requirements of the SORP.</p>	<p>The Audit Commission will review the justification for accounting for grants and test compliance with the SORP.</p>
<b>Changes in Best Value Accounting Code of Practice - objective analysis of police costs</b>	
<p>From 2009/10 the MPA is required to introduce a revised 'Police Service Expenditure Analysis' involving nine divisions of service. This will require a new, more detailed, objective analysis of expenditure to be prepared including appropriate 2008/09 comparative information.</p>	<p>We will undertake tests as appropriate to ensure the new disclosure presents the income and expenditure fairly.</p>

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# Testing strategy

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- 11 We will devise a testing strategy which will reduce the risk of material misstatement to the MPA's financial statements to an acceptably low level. The strategy will seek to conduct the audit in as efficient a manner as possible, utilising sources of evidence from third parties, the previous year's audit and placing as much reliance on Internal Audit work as possible to minimise the audit burden on MPA and MPS staff.
- 12 Specifically, we will seek to place reliance on Internal Audit's work on material financial systems to reduce our own testing. To this extent we liaise closely with the MPA's Director of Audit Risk and Assurance to prevent duplication. We will obtain the remaining assurance we need from substantive testing of the material transactions and accounts balances once the draft accounts have been prepared.



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# Key milestones and deadlines

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- 13 The MPA is required to approve the financial statements by 30 June 2010. The Audit Commission is required to complete the audit and issue the opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 14 We will agree with you a schedule of working papers required to support the entries in the financial statements. Every week during the accounts audit, we will meet with key MPA/S officers and review the status of all issues arising from the audit.

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**Table 2**      **Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Interim audit - audit planning, controls testing and early substantive testing of PFI accounting proposal	January to May 2010
Draft financial statements received by MPA Corporate Governance Committee	14 June 2010
Draft financial statements approved by MPA Full Authority	24 June 2010
Receipt of draft financial statements	by 1 July 2010
Provide accounts working papers to the auditor	by 1 July 2010
Audit testing of financial statements	July to August 2010
Progress meetings	Weekly - July to September 2010
Present Annual Governance Report to MPA Corporate Governance Committee	September 2010 (date to be agreed)
Issue opinion	By 30 September 2010
Present opinion audit report to management	October 2010

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# The audit team

15 The key members of the audit team for the 2009/10 audit are shown in the table below.

**Table 3**      **Audit team**

Name	Contact details	Responsibilities
<b>Les Kidner</b> District Auditor	<a href="mailto:l-kidner@audit-commission.gov.uk">l-kidner@audit-commission.gov.uk</a> 0844 798 2303	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and value for money conclusion, and liaison with the Chief Executive.
<b>Martin Searle</b> Senior Audit Manager	<a href="mailto:m-searle@audit-commission.gov.uk">m-searle@audit-commission.gov.uk</a> 0844 798 2678	Manages and coordinates the different elements of the audit work. Key point of contact for the MPA Treasurer and MPS Director of Resources.
<b>Tom Edgell</b> Audit Manager	<a href="mailto:t-edgell@audit-commission.gov.uk">t-edgell@audit-commission.gov.uk</a> 0844 798 2625	Works to the Senior Audit Manager and works with the Principal Auditor to resource and control the day-to-day audit. Provides regular updates on audit progress via liaison with finance staff.
<b>Halima Thomas</b> Principal Auditor	<a href="mailto:h-thomas@audit-commission.gov.uk">h-thomas@audit-commission.gov.uk</a> 0844 798 2684	Manages and reviews work of the audit team and works with Audit Manager to deliver audit. Provides regular updates on audit progress via liaison with finance staff.

## Independence and objectivity

- 16 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 17 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## The audit team

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### Meetings

- 18 The audit team will maintain knowledge of the MPA/S to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.
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### Quality of service

- 19 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 me or the Senior Audit Manager in the first instance.
- 20 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.
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### Planned outputs

- 21 Table 4 summarises the planned outputs from the 2009/10 opinion audit. Reports will be discussed and agreed with the appropriate officers before being finalised.
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**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Annual governance report	Corporate Governance Committee in September 2010
Auditor's report giving an opinion on the financial statements	By 30 September 2010
Opinion audit report to management	October 2010

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# Appendix 1 – Basis for fee

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- 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 work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the MPA/S with reference to:
  - our cumulative knowledge of the MPA/S;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with MPA/S officers; and
  - liaison with Internal Audit.

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## Assumptions

- 3 In setting the fee, it is assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
  - you will inform us of significant developments impacting on the 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 audit;
  - good quality working papers and records will be provided to support the financial statements by 1 July 2010;
  - 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, I will be required to undertake additional work which may result in an increased audit fee.

# Appendix 2 – Independence and objectivity

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- 1 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 the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 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.
- 4 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 Council on matters which are considered to be of sufficient importance.
- 5 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.

- 6 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 and Inspection 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.
- 7 The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

# Appendix 3 – Working together

## Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key staff, as set out in Table 5.

**Table 5 Proposed meetings with officers**

MPA/S staff	Audit Commission staff	Timing	Purpose
MPA Chief Executive	District Auditor and Senior Audit Manager	Quarterly	General update and agreement of annual audit plan and annual audit letter.
MPA Treasurer MPS Director of Resources	District Auditor, Senior Audit Manager or Audit Manager	Quarterly	General update and agreement of annual audit plan and annual governance report.
MPA Director of Audit, Risk and Assurance	Senior Audit Manager, Audit Manager or Principal Auditor	Monthly	To discuss emerging risks, share audit plans and joint-working to minimise duplication of effort.
MPA Deputy Treasurer MPS Chief Accountant	Audit Manager or Principal Auditor	January to June 2010 - monthly July to September 2010 - weekly	Update on audit progress and any issues identified by audit testing.
MPA Corporate Governance Committee	District Auditor, Senior Audit Manager and Audit Manager or Principal Auditor	Per committee timetable	Formal reporting of: <ul style="list-style-type: none"> <li>• Audit Plan;</li> <li>• Annual governance report; and</li> <li>• other issues as appropriate.</li> </ul>

### Sustainability

- 2 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.



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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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