

# Annual Audit Letter

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**Metropolitan Police Authority**

**Audit 2009/10**

**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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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 10).**

**I make one recommendation in this report which has been discussed and agreed with officers.**

## **Audit opinion and financial statements**

**1** I have completed my audit of the Metropolitan Police Authority's financial statements for the year ended 31 March 2010. I gave an unqualified opinion on 30 September 2010, the statutory deadline for police authority accounts. Given there were no outstanding questions or objections from local electors I also issued the audit certificate and formally closed the audit of the Authority's 2009/10 accounts.

**2** The statements presented for audit were complete in all major respects and contained no material errors. The Authority and Metropolitan Police Service (MPS) managed the first stage of transition to International Financial Reporting Standards well. Several adjustments resulted from the audit, but none of these were material nor affected the Authority's overall financial position.

## **Value for money**

**3** I am satisfied the Authority, having regard to the criteria specified by the Audit Commission, in all significant respects, made proper arrangements to secure economy, efficiency and effectiveness in use of resources for the year ended 31 March 2010. I issued an unqualified value for money conclusion alongside my opinion on the financial statements.

## Current and future challenges

**4** Along with all publicly funded bodies the Authority is responding to the need to make major savings to deliver balanced budgets in 2010/11 and over the medium term beyond. In its October 2010 spending review the government confirmed there will be a 20 per cent decrease in police funding in 'real terms' over the next four years. Members are considering options to achieve the required savings, including significant changes to police officer recruitment. Modernisation programmes designed to deliver significant efficiency savings are underway, including those in training, HR, property services and Territorial Policing.

**5** While the Authority and MPS has a good track record in managing finances and delivering efficiencies the scale of savings required over the next few years is unprecedented. Officers will need to provide members with robust and timely information on the savings required, plans and progress on delivery.

# Financial statements and annual governance statement

**The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the Authority's 2009/10 financial statements on 30 September 2010.**

## Overall conclusion from the audit

**6** I completed my work on your financial statements and annual governance statement in accordance with the required timetable and reported my findings in my Annual Governance Report to the Corporate Governance Committee in September. I gave an unqualified opinion on 30 September 2010.

**7** In my report to the Corporate Governance Committee I stated that:

- I was satisfied with the quality of the financial statements presented for audit; and
- I identified no significant weaknesses in your internal control arrangements.

**8** The Authority and MPS managed the accounts preparation well and implemented our recommendations from the previous year. Several changes to the accounts arose from the audit, but none of these were material nor did they affect the reported financial position.

**9** The Authority achieved the earlier submission deadline of 31 July 2010 for its Whole of Government Accounts (WGA) return on which I am required to give an audit opinion. However the earlier deadline resulted in a considerable increase in the number of amendments resulting from my audit. The Authority should improve its arrangements for preparing and validating the 2010/11 WGA return in accordance with the government's new submission requirements.

**10** The first stage of the transition to International Financial Reporting Standards, which essentially involved bringing the Authority's PFI contracts 'on-balance sheet', was well managed in 2009/10. The Authority and MPS is making good progress with the remainder of this project, which must be implemented within the 2010/11 accounts.

**11** In 2008/09 I commented on the weaknesses in the Authority's procurement controls in respect of contract extensions. The Authority has strengthened controls within this area during 2009/10 and made good progress in identifying and eliminating non-compliant contract extensions. I recommended the Authority maintain its focus on ensuring compliance with procurement laws and regulations.

# Value for money

**I considered whether the Authority is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## 2009/10 police use of resources assessments

**12** At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment would cease with immediate effect and the Audit Commission would no longer issue scores for its police use of resources (PURE) assessments.

**13** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the PURE assessment up to the end of May to inform my 2009/10 conclusion.

**14** I report the significant findings from the work I have carried out to support the value for money conclusion.

## Value for money conclusion

**15** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. I concluded the Authority met the criteria in each case.

**16** I issued an unqualified conclusion stating the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

**17** The table overleaf is a summary of my findings for each of the criteria specified by the Audit Commission.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes
Workforce	Yes

**18** Overall the Authority demonstrated continued improvements reflecting the significant drive to strengthen governance during the last three years. I set out the key findings from the work below.

### Managing finances

**19** The Authority managed finances well in 2009/10. It maintained general reserves above target levels while delivering the two-year efficiency target of £292 million.

**20** The Authority is using cost benchmarking to inform contract negotiations which have delivered savings. It is conducting cost comparisons with other forces and reviewing the costs incurred on National and International Capital City functions to ensure these represent good value for money. This work is at an early stage and is not yet being used to inform financial plans or routinely identify savings.

**21** As with all publicly funded bodies, the Authority will need to deliver large savings and a balanced budget over the medium-term despite experiencing a significant decrease in police funding. To this end the Authority is scrutinising savings plans and examining options to improve productivity.

## Governing the business

**22** The findings of the joint HMIC/Audit Commission police authority inspection were reported in March 2010 and concluded that the MPA's governance arrangements were adequate. Members provide appropriate scrutiny of the executive with effective leadership from the Chair and Chief Executive. Arrangements are in place for governing partnerships, including joint engagement meetings between MPA members, MPS borough commanders and local partners at borough level. The inspection identified several areas for improvement, including the need for Authority members to better scrutinise the productivity of policing activities. It also recommended the MPA look more closely at costs and how these compare with others.

**23** The Authority achieved savings through joint procurement initiatives, including £5 million saved through the joint procurement of body armour, forensic science services and mobile phones with ACPO and other police forces. It is reviewing the areas of the business that could be delivered effectively under shared service arrangements, although in 2009/10 it had not entered any such arrangements. It has subsequently entered an arrangement to provide financial services to the Association of Chief Police Officers.

**24** The Authority is implementing new systems and training designed to improve data quality. However, these had not delivered significant improvements during 2009/10, with the MPS's data accuracy team continuing to assess crime data quality as 'fair' overall.

**25** In my 2008/09 Use of Resources report I recommended that management report the corporate risk register to members to allow them to oversee management's arrangements for identifying and managing corporate risks. The corporate risk register was reported to MPA Corporate Governance Committee twice in the latter half of 2009/10. Risk management more generally is still not well embedded in the Authority's business processes. MPA members, the Directorate of Audit Risk and Assurance and MPS lead officers are working together to secure improvements, including strengthening the link between the corporate risk register, corporate priorities and lower level risk registers.

**26** I did not identify any major weaknesses in internal financial control. The Authority's Director of Audit, Risk and Assurance's (DARA) overall assurance score reflected a continuation of the gradual improvement in the control environment evident within the last three financial years. However, the DARA's work continues to identify weaknesses in applying local controls for expenditure and assets at command unit level. Management is taking steps to strengthen these controls, for example by introducing a new asset tracking system that is currently being rolled out across the MPS. It is important the Authority achieves more rapid improvements so all its systems are properly controlled and support the delivery of business objectives.

## Managing resources

**27** Auditors assessed how police authorities manage natural resources for the first time in 2009/10. I found the arrangements for managing natural resources at the MPA to be adequate.

**28** The Authority has a good knowledge of its impact on the environment and is making progress in delivering environmental targets, including an 8 per cent decrease in building energy consumption and a 23 per cent decrease in water consumption since 2005/06. The MPS has been commended for promoting sustainability with suppliers through its procurement practices. However, vehicles emissions have increased by 9 per cent since 2005/06 despite introducing a sizeable hybrid vehicle fleet.

## Risk-based performance review: preparations for the Olympics and Paralympics

**29** To support my value for money conclusion I reviewed the MPA's arrangements to maintain oversight of preparations for the Olympics, with the emphasis on the financial and governance perspectives.

**30** I concluded the MPA has sound governance arrangements with respect to Olympic preparations focused primarily through a dedicated subcommittee. This group conducts a very good level of scrutiny, supported by good quality financial and other relevant information enabling members to have effective input to the analysis of plans and options being prepared. The subcommittee provides effective oversight of the developing risks and procurement implications, and the scrutiny includes understanding the wider implications for the MPA's normal policing operations.

**31** My recommendations focused on clarifying the responsibilities of the subcommittee in relation to detailed financial monitoring and risk management as Olympics-related spending increases. I discussed and agreed my report with the Authority in September 2010.

## Approach to local value for money work from 2010/11

**32** The Audit Commission is consulting on its work programme for 2010/11 and 2011/12, including a new approach to local value for money audit work reflecting the scale of pressures facing public bodies in the current economic climate.

**33** The value for money conclusion is to be based on fewer criteria that focus on the Authority's arrangements for securing:

- financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position; and
- economy, efficiency and effectiveness – focusing on how the Authority is managing resources within tighter budgets and improving productivity and efficiency.

**34** I will determine a local programme of audit work based on my risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement; instead I will report the key messages for the Authority in my annual governance report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Current developments

**35** The Authority faces substantial challenges to maintain effective policing in London. Government spending constraints are having a significant impact on public finances and the bodies that manage them. The economic downturn raises the prospect of increasing demands for police services. Alongside these pressures, the MPA also needs to manage the uncertainties arising from the government's plans for changes in police governance in London.

**36** Maintaining a healthy financial position in 2010/11 will be challenging. In May 2010 the Home Office informed police authorities that 2010/11 grant settlements would be reduced from those previously notified. This has resulted in a £33 million decrease in revenue grant for 2010/11, in addition to the £124 million savings already achieved within the budget. Territorial Policing budgets also face pressures because some London councils are responding to their own budgets pressures by reducing the number of additional police officer posts they will fund.

**37** Members are considering options to achieve the additional savings, including pausing police officer recruitment and faster rationalisation of the property estate to reduce premises costs. The financial pressures are reflected in the Treasurer's projection during November 2010 of an overspend of £8.9 million for 2010/11 taking into account all savings identified to date.

**38** The position will require careful monitoring and effective challenge from both officers and members if the Authority is to deliver a balanced budget by year end.

## Future developments

### Medium-term financial planning

**39** The Chancellor of the Exchequer set out public spending plans for the period 2011–2015 in his Spending Review, announced on 20 October 2010. This confirmed that total police funding will reduce by 20 per cent in 'real terms' over the next four years, equivalent to 12 per cent in cash terms.

**40** The Authority and MPS are working together to identify the savings required to deliver a balanced budget in 2011/12. In common with most public bodies, it faces a significant budget 'gap' from 2012/13 onwards and will need to look fundamentally at the way it delivers services in order to address this. Members are considering options to achieve the required savings, including significant changes to police officer recruitment. Modernisation programmes designed to deliver efficiency savings are underway in operational and support functions including HR, property services and Territorial Policing.

**41** Considerable financial risk remains. The Authority is now working with the Home Office to assess the impact of proposed changes in the funding formula on its budgets. It is also working with the Mayor to confirm the level of precept it will receive from the GLA over the next four years.

**42** The Authority has stated a commitment to maintaining and improving service levels while cutting its spending. It has also committed to delivering a significant element of the Home Office's Olympics security strategy, with plans underway to deliver this. The size of the savings required over the next three years is considerable however.

**43** Members and officers will need to work closely together and maintain effective engagement with staff and stakeholders to achieve the savings required and minimise the impact on the Authority's plans for policing in London.

## Recommendation

**R1** The Authority should continue to:

- monitor the financial position and the delivery of 2010/11 financial targets; and
- keep the projected medium-to-longer term financial position under close review.

## The future of police governance

**44** The Authority has responded to the Home Office's consultation on police governance and proposals for directly-elected police and crime commissioners. The Authority will need to work closely with the Home Office and Mayor to determine how the proposals affect London to ensure the principles of good governance are upheld.

## Closing remarks

**45** This Letter has been discussed and agreed with the MPA's Chair, Chief Executive and Treasurer and the MPS's Management Board. I will present this letter at the Corporate Governance Committee in December 2010 and will provide copies to all Authority members.

**46** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Authority during the year.

Report	Date issued
Olympics	June 2010
Annual Governance Report	September 2010
Opinion on Financial Statements	September 2010
Value for Money Conclusion	September 2010

**47** The Authority has taken a positive and helpful approach to our audit. I wish to thank the staff within the MPA and MPS for their support and cooperation during the audit.

L.J. Kidner  
District Auditor  
November 2010

## Appendix 1 Audit fees

	Actual £ 000	Proposed £ 000	Variance
Financial statements and annual governance statement	365	365	-
Value for money	151	151	-
<b>Total audit fees</b>	<b>516</b>	<b>516</b>	

## Appendix 2 Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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