

Audit Plan

Metropolitan Police Authority

Audit 2000/2001

kpmg



DISTRICT AUDIT

delivering public audit
for the Audit Commission

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Summary and planning considerations

Introduction

Our principal objective as your appointed auditors is to carry out an audit that meets the Audit Commission's Code of Audit Practice. The audit will be tailored to your local circumstances so that audit effort is directed towards those areas of greatest financial and operational risk in order to help you towards achieving your aims.

This document sets out your audit plan for the 2000/2001 Code of Audit Practice audit. Given that this audit will be the first under the Audit Commission's regime the emphasis will be on ensuring that the fundamental infrastructure of the organisation is sound. Accordingly a significant part of the audit effort will be devoted to assessing key strengths and weaknesses.

The audit fee this year will be £500,000 including the audit of Best Value. This fee reflects the staffing skills required to audit the complex and in some respects unique, bodies that are the Metropolitan Police Authority (MPA) and Metropolitan Police Service (MPS). The fee is broadly in line with the scales set out in the Audit Commission's 2000/01 fee letter.

Our responsibilities

The Audit Commission, which is responsible for our appointment, has circulated to you and other audited bodies a statement summarising the key responsibilities of auditors. We think the statement is helpful both to you and us, in setting out briefly the main parameters of our work. What we say in this plan regarding the scope of your audit should be reviewed against that more formal background.

Identifying key issues and risks

The preliminary planning phase of the audit is designed to help us to identify the key issues relevant to the MPA/MPS, which have an impact on our work. In this phase we have:

- reviewed relevant information such as budgets, minutes, policies and strategies, internal audit plans and information arising from discussions with officers
- taken account of information and guidance circulated by the Audit Commission

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- reviewed the legislative framework and considered the effects of these and generally accepted accounting practice on the financial statements
 - considered the results of work done under past audit regimes and experience and awareness of relevant national and local issues
 - assessed the potential to secure improvements in performance management through the implementation of the Best Value requirements and good practice identified from studies or other comparative review processes
 - assessed materiality, risk and the control environment.

We have identified a number of factors which have inherent risks for the MPA/MPS under the new arrangements introduced on 3 July 2000. These are outlined in the exhibit below.

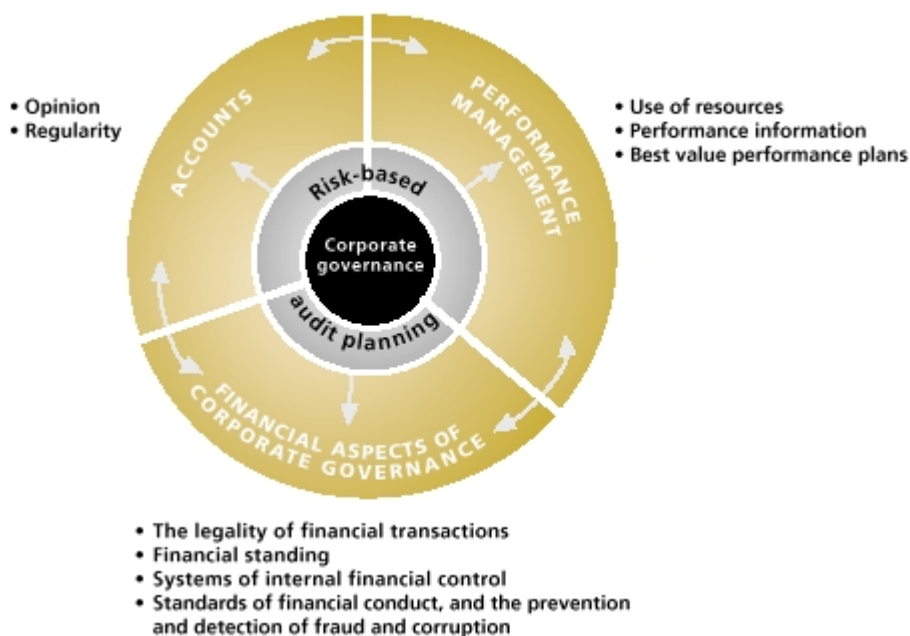
Exhibit 1 Key risks for the 2000/2001 audit

Our planning processes have identified a number of key risks for the 2000/2001 audit

Key risk
• The MPA is a new authority and structures and liaison with the MPS are evolving
• The MPA/MPS has a high profile and there are high public expectations
• There has been significant internal restructuring within the MPS in recent times
• Performance management systems at the MPS are still developing
• The MPA/MPS will be using new systems and procedures which are untested in practice and a number of existing financial systems have acknowledged weaknesses
• The MPA/MPS will have to produce full accruals based accounts for 2000/01 and it is not yet clear if the necessary skills and expertise are in place
• The MPA faces the challenge of developing effective liaison with the GLA and the Assembly for London.

Code of Audit Practice objectives

The Code of Audit Practice requires auditors to make an independent assessment in the following key areas:



The following detailed plans set out how we propose to respond to the overarching risks outlined in Exhibit 1 and how these link to our responsibilities under the Code of Audit Practice.

District Audit and KPMG

The terms of the audit appointment involve District Audit, the appointed auditors, working with KPMG to deliver the audit. This will allow the MPA/MPS to benefit from the previous experience KPMG have in undertaking work for the National Audit Office.

Liaison with other review agencies

A key part of our approach will be to work with Internal Audit to allow us to move, over time, to the implementation of a 'managed audit' approach. Such an approach involves reliance by external audit on Internal Audit work and the integrity of the internal financial controls in place.

We will also work closely with the HMIC and the Audit Commission to ensure duplication is avoided, while acknowledging our differing statutory duties and responsibilities.

The GLA family

The GLA family (MPA, TfL, LFEPa and LDA) and the GLA will have to work closely together to deliver value to Londoners. Likewise we will work closely with the auditors of the GLA and the other functional bodies. As we prepare our audit plans we will need in particular to co-ordinate our approach to those audit areas of potential overlap; consolidated accounts, preparation of Best Value Performance Plans and strategic use of resources. Section 2 outlines the proposed audit work for the 2000/2001 audit of the MPA/MPS. In addition, future audits will require us to consider the scope to undertake work with the auditors of the other bodies in the 'GLA family'. This approach is outlined in Section 3.

Detailed audit plan

This section sets out the detailed audit coverage planned against each code objective.

Financial aspects of corporate governance

It is your responsibility to put in place proper arrangements to ensure the proper conduct of your financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of your corporate governance arrangements.

Our work for 2000/2001 will build on the conclusions from our initial risk assessment in the following areas:

Code of Practice area	Key risks identified	Planned audit coverage
Legality of significant financial transactions	<ul style="list-style-type: none"> The MPA is a new authority and the legislation setting it up is untested in law Potential for objections/judicial review A number of key legal challenges exist, such as the Human Rights Act and PFI schemes 	<ul style="list-style-type: none"> Review of the arrangements to ensure the legality of financial transactions These will be addressed as they arise and would be in addition to the above review We will monitor the effectiveness of the arrangements to ensure legality in these key areas
Financial standing	<ul style="list-style-type: none"> As a new body the MPA has not built up reserves and balances, nor does it have the benefit of past experience to estimate its requirements Like all police authorities, the MPA must face the 'pensions funding' issue 	<ul style="list-style-type: none"> On an ongoing basis during the year with specific focus on the year end, we will review: <ul style="list-style-type: none"> Budgetary control procedures The levels of reserves and their planned use over the longer term The longer term financial strategy and links to the Best Value Performance Plan Income collection rates and the adequacy of the bad debts provision Check reports of the Finance department are adequate for S127 purposes

Code of Practice area	Key risks identified	Planned audit coverage
Standards of financial conduct and fraud and corruption	<ul style="list-style-type: none"> • As a new body, the MPA may not have allowed for all eventualities in drawing up its framework for financial conduct and preventing and detecting fraud and corruption • The MPA/MPS is high profile and any shortfall in standards will result in wide publicity which could adversely affect public confidence 	<ul style="list-style-type: none"> • Detailed reviews of fraud and corruption prevention strategies and codes of conduct and their implementation • Review work of Internal Audit and carry out additional testing where required
Internal financial controls	<ul style="list-style-type: none"> • Internal Audit have not previously been subject to external review • Some IT systems and IT interfaces have not been in place long enough to demonstrate full effectiveness • SOs and FRs are new and have not yet been subject to full audit review • New systems are being operated with new procedures. Previous audits have identified weaknesses in older systems • A significant number of contracts with the private sector exist • Land and buildings may not be contributing in a way that maximises return from the investment made in them 	<ul style="list-style-type: none"> • Review Internal Audit's performance to ensure that they meet their own professional and statutory requirements • Overall assessment of IT controls • Check latest version of SOs and FRs • Apply Audit Commission 'Regular as Clockwork' methodology to key systems and controls • Consider client side management issues such as contract letting procedures and contract management arrangements • Consider arrangements and systems for decision making on usage, running costs and future strategy on the estate

Accounts

The published accounts of the audited body are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

We are required to give an opinion on the financial statements. In doing this, we address the following:

Code of practice area	Key risks identified	Planned audit coverage
Final accounts	<ul style="list-style-type: none">There is a risk of delays, errors and non-compliance with the Accounting Code of Practice due to: The need to produce accruals accounts, this is a far more complex task than the accounts previously produced by the MPS and requires the successful establishment of an opening balance sheet and the introduction of appropriate accounting policies. It is not yet clear that the appropriate skills are in place. <p>The existence of 'covert accounts' which will require a different audit approach.</p>	<ul style="list-style-type: none">Review of core processes:<ul style="list-style-type: none">main accounting systembudgetary controlaccounts closedown procedureAudit of financial statements

Performance management

It is your responsibility to put in place proper arrangements to manage your performance, and to secure economy, efficiency and effectiveness in the use of your resources. In addition, you are required to prepare and publish specified performance information and an annual best value performance plan by 31 March 2001.

We shall consider whether adequate arrangements to secure economy, efficiency and effectiveness in the use of resources are in place. We have identified risks in a number of areas and developed an approach to address each of them in the form of project specifications which will be locally tailored in discussions with key contacts.

This plan also includes provision for:

- reviewing the compliance and legality of your Best Value Performance Plan for 2001/02
- a review of processes to enable us to provide a statement on your management arrangements to achieve Best Value.

Code of practice area	Key risks identified	Planned audit coverage
Use of resources	<p>The MPA/MPS is operating in a new environment with high public expectations. To make best use of its resources it needs to consider:</p> <ul style="list-style-type: none"> • The effectiveness of its own internal review agencies • The response to previous Audit Commission studies • The need to develop effective partnership working 	<ul style="list-style-type: none"> • Review of internal consultation service • Stock-take of responses to past AC studies, such as Tackling Crime, Police Patrol and Police Surgeons • Follow up of previous work and reports to the MPS on Community Safety
	<ul style="list-style-type: none"> • The BVPP may not comply with legislation and statutory guidance 	<ul style="list-style-type: none"> • Audit of the plan to ensure that it has been completed and published in accordance with legislation and the relevant regulations and guidance
	<ul style="list-style-type: none"> • The processes and arrangements to deliver Best Value may not be sufficiently in place 	<p>We will review:</p> <ul style="list-style-type: none"> • The corporate strategies for each of the 4 C's • The corporate review processes including service selection • Performance management systems • The Authority's response to internal and external challenge • The service review processes
	<ul style="list-style-type: none"> • The following key challenges also exist: <p>The need for the MPA to develop procedures to allow longer term service and financial planning</p> <p>The effects of failure to fill posts on services and the overtime bill</p> <p>Early retirement has a significant impact on the pensions scheme</p> <p>The adverse publicity and costs arising from a significant number of employment tribunal cases.</p>	<ul style="list-style-type: none"> • Review of service and financial planning • Review of arrangements for overtime • Early retirement on medical grounds • Arrangements for managing Employment tribunals

Code of practice area	Key risks identified	Planned audit coverage
Performance information	<ul style="list-style-type: none">The performance information which the MPA/MPS is required to publish has only recently been agreed by the Home Office. There is therefore a risk that adequate systems are not yet in place to provide accurate data	<p>We will review the systems necessary to generate:</p> <ul style="list-style-type: none">General health indicatorsBest Value and other service-based indicatorsLocal performance indicators

GLA family audit

The Audit Commission has established a GLA Auditors' Group whose aim is to secure a cohesive approach across the GLA family as far as is possible. This group of auditors met regularly last year and will have further meetings this year. The group intend to make a presentation to the Chief Officers from the GLA family on 16 March. It is increasingly likely that we will need to consider addressing 'family-wide' issues at future audits of the MPA/MPS.

Future Planning Intentions

We have also taken the opportunity to identify some key areas for potential audit coverage in the two years following the current audit year. These are shown to help us plan our audit coverage more effectively in liaison with you and to ensure that our work integrates with Internal Audit's future plans. In particular, they will be discussed with the auditors of the GLA and the other functional bodies to ensure a joined up approach. We will keep our longer term plans under review in the light of your Best Value Performance Plans and the intentions of the HMIC.

Code area	2001/2002	2002/2003
Financial aspects of corporate governance	Cyclic plan to be agreed	Cyclic plan to be agreed
Performance management	Diversity and equalities Policy into practice Recruitment and retention	Detailed review of IM/IT Achieving improvements through partnerships

Delivering your audit

Timetable and output

During the audit you will receive output at various stages which will contribute to the final audit product. We intend to develop output monitoring arrangements with you during the year. A suggested timetable is outlined below:

Audit areas	Expected output	Field work	Output date
Audit Plan	Audit Plan.	August – December	Jan 2001
Financial aspects of corporate governance (apart from financial standing)	Summary report of key issues.	Feb-June	July 2001
Financial standing	Ongoing dialogue and summary to go in Annual Audit Letter.	Ongoing	Dec 2001
Opinion	Opinion on the Accounts plus summary memo.	Aug-November	November 2001
Use of resources	Summary reports on all work.	TBA	TBA
Performance Indicators	Summary report on issues arising.	August 2001	September 2001
Best Value	Statutory report and opinion	Jan-May 2001	June 2001

The timetable assumes:

- good working arrangements with management and Internal Audit
- officers will provide requested data, with clear supporting documentation promptly
- officers will provide good quality working papers and records to support the accounts
- responses to draft reports will be in accordance with the agreements made at the start of a particular piece of work.

The Audit Team

Kash Pandya CPFA

Kash has led District Audit's work on police issues at a national level for over five years. As District Auditor he will take responsibility for overseeing the delivery of our audit programme to the MPA/MPS.

Jon Hayes CPFA


Jon is one of District Audit's most experienced Audit Managers and will be Audit Manager for the MPA/MPS. He will be responsible for the day-to-day management of the audit.

Marcine Waterman BA MPA

Marcine is Business Development Director and Best Value District Auditor for London and the South East. She will lead on Best Value and the Performance Audit for the MPA/MPS.

Kevin Murphy ACA

Kevin is a Director with KPMG and will lead on the work KPMG will be undertaking on the Accounts and the Financial aspects of Corporate Governance.



Audit fee and billing arrangements

The audit fee for 2000/2001 will be £500,000 and will be billed in ten equal instalments. The fee makes the same assumptions as are listed in Section 5 and we may have to alter it should those assumptions prove to be incorrect.

Additional work

If there is any additional work you would like undertaken, we will agree our fees as part of the job specification.

Questions and objections

Significant work on questions and objections from electors is outside of the above plan and will be billed separately at grade related rates. You will be advised of estimated costs as and when circumstances arise.

Grant Claims and returns

Work on any grant claims and returns will be undertaken by KPMG, who will certify them. This work will be billed for separately.