

Our reference

Your reference

Date 28 February 2001

Peter Martin
Treasurer
Metropolitan Police Authority
6th Floor, Romney House
Marsham Street
London SW1P 3 PY

Dear Peter

Audit Fees

The Audit Panel approved our audit programme for the 2000/01 audit at the meeting of 8 February. The Panel asked for some further information on the fee, for a meeting to be held on 8 March. The following paragraphs set out how the fee is made up, compare it with the Audit Commission fee scale and discuss quality measures, which the Panel could use to monitor our work. This letter should be read in conjunction with the audit plan.

Audit Fee

The Audit Commission's Code of Audit Practice requires auditors to undertake work against a number of objectives. The quantity of such work is to some extent dictated by assessment of audit risks. There are a number of audit outputs that must be delivered in all circumstances. Apart from opinion work and work on Audit Commission PIs most of these have not been undertaken at the MPA/MPS before. The proposed fee of £500,000 can be broken down across the three principal areas of audit work as follows:

Opinion on the accounts, £195,000

Assessment of financial aspects of corporate governance, £145,000

Assessment of performance management arrangements, £160,000.

Opinion

This work is the equivalent to that undertaken in the past by the National Audit Office (NAO). To give an opinion on the accounts external auditors have to consider the core processes that contribute to the production of the

accounts such as: main accounting system, budgetary control and the closedown process. KPMG undertook the risk assessment in this area and the proposed fee for this work is based on their cumulative knowledge, having undertaken work for the NAO on the last three years' accounts of the MPS. It should be noted that the accounts of the MPA will be far more complex and difficult to audit, as they will include fixed assets, creditors, debtors and provisions as well as the cash transactions accounted for in the past.

Financial aspects of corporate governance

The Commission's Code of Practice requires auditors to undertake specific work in this area as well as on the opinion. We are required to comment on the arrangements in place to: secure internal financial control, ensure standards of conduct and prevention and detection of fraud and corruption and those to ensure legality of transactions and adequate financial standing. There are a significant number of audit risks in this area which have been identified and agreed in discussions with staff and internal audit. The fee for our work in this area is made up as follows:

Internal financial control, including review of internal audit, consideration of IT issues, estate management, client side management and general regularity controls, £94,000.

Standards of conduct and fraud and corruption, £29,000.

Legality of transactions, £12,000

Financial standing, £10,000.

The volume of work proposed here is similar to that which we would undertake at a large London Borough audit with a similar number of identified audit risks.

Performance management

Our work in this area will be partly based on work we have to do and partly on addressing jointly identified risk areas. There are actually other audit risks identified that are not included in our plan because it would not be feasible to expect the MPA/MPS to be handle the investment of time that volume of work would generate. The proposed fee for this part of our work is made up as follows:

Audit of the Best Value Performance Plan, £65,000

Audit of Audit Commission PIs, £15,000

Assessment of internal review agencies, £10,000

Follow up of past Audit Commission studies, £15,000

Review of overtime, £10,000

Employment tribunals, £15,000

Service and financial planning, £15,000

Early retirements, £15,000.

The cost of the BVPP work is based on our experience last year and the PIs cost on the work the NAO undertook last year. The others are standard costs for these pieces of work. The total work proposed in this area is similar to that at a large London Borough. It should be noted that the NAO have not undertaken any specific work in this area in recent years, which increases the audit risk.

Audit Commission Fee Scale

Having built up a plan from the work required to undertake a Code of Practice audit and the risk assessment process, it is appropriate to compare it with the Audit Commission's Fee Scale. The size, unique circumstances and the fact that the MPA/MPS have not been subject to the Audit Commission regime before, all lead to a high number of audit risks. As a result the audit fee exceeds the fee scale slightly. The poor state of the financial systems is a major factor in this.

We will, of course, keep the fee under review. If your arrangements become more robust that will be reflected in the fee for future years.

Quality Measures

To enable you and the Panel to monitor our progress we will report regularly on the position on the various aspects of our work. The Panel should ensure we deliver the outputs promised in the audit plan in a timely manner. Our timetables are to some extent dependent on the response we receive from staff and the speed with which they prepare material for audit. These will be firmed up as we finalise project briefs for each block of work

We intend to issue client satisfaction surveys, to allow us to receive feedback on major pieces of work, which we will share with the Panel. In addition the Audit Commission's quality control process will doubtless take in audit work

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at the MPA/ MPS at some point in the future. You and the Panel will be expected to contribute to that process.

It would seem appropriate to develop these arrangements further as our work progresses. You and the Panel might wish to have regard to the Audit Commission paper, 'What you can expect from your auditors', in considering this matter further. Copies have been made available to all audited bodies, I can supply more on request.

Yours sincerely

Kash Pandya
District Auditor