

# Audit plan

## Metropolitan Police Authority

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<b>Reference:</b>	Metropolitan Police Authority Audit Plan
<b>Date:</b>	May 2004

## Introduction

Our principal objective as your appointed auditor is to carry out an audit which meets the Audit Commission's Code of Audit Practice.

This plan sets out the audit work we propose to undertake in 2004/2005. The plan has been drawn up from our understanding of your priorities and our risk based approach to audit planning.

## Strategic regulation

Strategic regulation is at the core of the Audit Commission's plans. It is a new more focused and more risk-based approach. Our approach to strategic regulation embodies four key principles:

- it is a force for continuous improvement
- it is focused on outcomes for service users
- it is proportionate to performance and risk
- it is delivered in partnership.

We intend to demonstrate the benefits of strategic regulation in your audit and inspection programme through the reduction in the overall fee for assurance and performance work, by the reliance we place on the work of other agencies, such as HMIC and your own internal audit, and the changes to the grant claim regime which takes effect from the 2004/05 audit year.

## Our responsibilities

In carrying out audit work we comply with the statutory requirements governing it, in particular:

- the Audit Commission Act 1998
- the Code of Audit Practice (the Code)
- the Local Government Act 1999.

Our audit is also planned to be consistent with the Audit Commission's Strategic Plan 2004/2007.

The Code sets out three key objectives for our audit:

- accounts
- financial aspects of corporate governance
- aspects of performance management.

## The fee

The fee for our 2004/2005 programme of work is set out below.

Audit area	2004/05 Fee (£)	2002/04 Fee (£)
Accounts	195,000	425,000
Governance	168,000	344,000
Performance	146,000	299,000
<b>TOTAL</b>	<b>509,000</b>	<b>1,068,000</b>

It was agreed when the 2002/04 plan was agreed that some of the risk assumptions would be revisited in the light of later evidence. This work is still ongoing but it is likely that the total fee will be reduced by some £25,000.

In setting the 2004/05 fee we have assumed:

- you will inform us of significant developments and emerging risks
- internal audit meets the appropriate professional standards
- we will be provided with good quality working papers
- you will provide requested information within agreed timescales
- prompt responses to draft reports.

Changes to the plan will be agreed with you. These may be required if:

- significant new risks emerge
- additional duties are required of us by the Audit Commission
- changes are agreed with the other inspectorates.

In addition to the above fee there will be a separate fee for the grant claim certification work for 2004/2005. The exact fee for this work will depend on the number and complexity of claims and will be provided to you by KPMG, who, in accordance with previous agreements, will complete all certification work. There may though be an overall increase in the grant fees as a result of the new 'borough based' grant claim.

## Accounts

We are required to give an opinion on your accounts. We will do this by reviewing your core processes for producing the accounts:

- the main accounting system
- the budgetary control procedures
- the final accounts closedown procedures.

We will then undertake detailed testing of the figures in the accounts.

We will undertake the following specific work to address the risks we have identified for 2004/2005. These risks may be liable to change as the 2004/2005 financial year progresses, and we will update our risk assessment and work programme during the year.

Risk	Action proposed
There is a need for increased emphasis on complete and accurate working papers being provided in a timely manner to support new disclosures and areas that were previously subject to qualification.	We will continue to work with you to ensure realistic audit and closedown timetables that will achieve an earlier audit opinion.
Preparation for the Whole of Government Accounts will require the earlier production of your Statement of Accounts.	We will review your preparedness for the introduction of Whole of Government Accounts.
SORP 2003 requires a number of changes to the disclosures made in the Authority's accounts	We will review your preparedness for making such disclosures as required by SORP.
The Authority is required to produce and sign up to a statement of internal control within the accounts.	We will monitor the action taken to ensure compliance and review the arrangements with which the Authority satisfies itself in signing up to the controls set out in the SIC.
The Authority needs to undertake a significant costing exercise in order to prepare the revenue account in accordance with SORP 2003 requirements.	We will monitor progress of this costing exercise during the year and undertake early work on the methodology used prior to the audit of accounts to identify any potential problems at an early stage.
A significant number of covert transactions take	We will liaise with internal audit to allow us to

place every year.

discharge our respective duties.

Our work on your accounts does not seek either to obtain absolute assurance that the financial statements present fairly your financial position or assurance that they are accurate in every regard.

In this context we adopt a concept of materiality. In planning and conducting our audit of your accounts, we seek to ensure that there are no material errors in your financial statements. Material errors are those which might be misleading to a reader of the financial statements.

An unqualified opinion may not be given on financial statements that contain material misstatements. In the course of our work, we may also identify non-material misstatements that we will report to officers for amendment, unless they are clearly inconsequential. If officers do not make the required amendments, we will report the amendments to the Audit Panel in our SAS 610 report so that there is an opportunity for them to be amended prior to the approval and certification of the financial statements.

If the Authority concludes that the adjustments are not necessary we will require a written explanation explaining the reasons for not adjusting.

We will also report in the final accounts report any misstatements that have been adjusted where we feel that bringing them to the attention of the Authority will assist you to fulfil your duties, particularly in relation to internal financial control.

### Expected outputs

SAS 610 report

Audit opinion

Final accounts memorandum

## Financial aspects of corporate governance

We are required to determine whether you have adequate arrangements for:

- legality of financial transactions
- financial standing

- internal financial control
- standards of financial conduct and preventing and detecting fraud and corruption.

We will undertake the following specific work to address the risks we have identified for 2004/2005.

Risk	Audit work proposed
Ongoing work is required to ensure that the financial systems and budgetary control arrangements continue to improve in line with previously agreed improvement plans	Assessment of the arrangements to improve the financial systems including the extent to which internal audit work supports this agenda.
The new risk management arrangements are yet to be firmly embedded across the MPA/MPS at the operational level	We will review progress on the development of the risk arrangements and consider whether the risk registers are being kept up to date on an ongoing basis.
The Authority will need to ensure it uses the new flexibilities introduced by the Prudential Code effectively whilst considering the potential impact on its future borrowing costs.	We will monitor the Authority's approach to using the flexibilities provided by the Prudential Code.
Fraud awareness and ethical governance across the Authority needs to be continually maintained.	We will review the effectiveness of the arrangements in place for disseminating good governance and an anti-fraud and corruption culture across the MPA/MPS, working in partnership with internal audit.

Expected outputs
Financial systems (interim report)
Financial aspects of corporate governance report

## Performance management

### Overall arrangements

We will review whether you have adequate arrangements to secure economy, efficiency and effectiveness in the use of your resources.

Additionally we will undertake the following specific work to address the risks we have identified for 2004/2005.

Risk	Audit work proposed
The Police Reform Act 2002 introduced a number of significant requirements and duties to which the MPA must adhere, including compliance with the National Policing Plan.	We will review the Authority's progress against the National Policing Plan 2004-2007. As part of this work we will consider the business impact of the C3i project and its contribution to meeting the national targets.
There remain areas with scope for further improvement in the Authority's arrangements in respect of partnerships	We will build on our previous work with the Authority to take forward the opportunities for development already identified, focusing particularly on the linkages between partnerships, eg CDRPs, LSPs and LCJBs.
The Authority needs to continually consider ways to increase the involvement of, and engagement with users. A key part of this work is the consideration of diversity issues in deciding priorities.	We will review the way the Authority engages with users and considers diversity issues. In doing so we will link our work to existing initiatives on 'safer neighbourhoods' and responses to legislation such as the HRA.
The Authority may not be fully realising the benefits of devolution and effective financial management arrangements.	We will review the arrangements in place to support devolution to OCUs and effective financial management.

We will also follow up certain aspects of our work from previous years to ensure you have implemented agreed recommendations. In particular we will:

- assess progress against our past HR/workforce related work to ensure action is being taken in response
- review the extent to which past IT related recommendations are being acted on to assist our evaluation of the extent to which benefits are being realised from IT projects.

### Best value

We will undertake a review of your Best Value Performance Plan (BVPP) to ensure it meets the statutory requirement in respect of its content. We will issue an opinion on this plan before the end of December 2004. We will also review and comment on your systems for collecting performance information and in particular BVPIs.

### Audit work mandated by Police Standards Unit (PSU)

The Audit Commission will continue to undertake national reviews at all police authorities in partnership with the Police Standards Unit (PSU) of the Home Office. This work is funded directly by the PSU and is not, therefore, included within your audit fee. There are two reviews for 2004/2005:

- the second stage of the review of compliance with the National Crime Recording Standard (NCRS)
- implementation of Activity Based Costing (ABC). This review will assess progress made against the Authority's plan for delivering ABC.

Expected outputs
National Policing Plan report
Partnerships stage II report
Consultation with users/user focus report
Devolution and financial management report
Follow up report on HR/workforce issues
Follow up report on IT benefits realisation
BVPP opinion
Audit report on the BVPIs
Report on NCRS compliance
Report on the implementation of ABC

### Grant claim certification work

The Audit Commission has changed the certification audit regime to reduce the amount of work overall, and better link the work to assessments of risk. The benefits of this approach will begin to be achieved in certification work later in 2004, and be fully achieved in 2005. The main changes are:

- claims for £50,000 or below would not be subject to certification
- claims between £50,001 and £100,000 would be subject to a reduced, light touch, certification audit
- claims over £100,000 would have an audit approach relevant to the auditors assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.

However the impact of the above will need to be balanced against the need for us to do work on the new 'borough-based' claims.

### The team

Name	Title
Kash Pandya	District Auditor
Kevin Murphy	KPMG Director
Neil Gray/ Paul Grady	Audit Managers
Neil Thomas	KPMG Audit Manager
Janette Whitfield	Performance Lead
David Fleming	IT specialist
Huw Evans	Performance specialist

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

In relation to the audit of your financial statements, we will comply with the Commission's requirements in respect of independence and objectivity as set out at Appendix 1.

### Further details of our respective Code responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies gives further information on our respective responsibilities under the Code of Audit Practice.

### Reporting

We will provide reports, or other output as agreed, to the Audit Panel for each of the risk

areas identified in the plan. Our key milestones are set out in the planned outputs section. This is prepared in draft form and will be updated regularly as work programs are agreed, and will form the basis of audit progress reports to officers and the Audit Panel.

We are also required to report relevant matters relating to the audit to those charged with governance. The following section on planned outputs shows how we will address this requirement.

## Status of our reports to the Authority

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the relevant Committee.

Planned output	Start date	Draft due date	Key AC contact
SAS 610 report	June 2005	October 2005	Neil Gray
Audit opinion	June 2005	October 2005	Neil Gray
Final accounts memorandum	October 2005	November 2005	KPMG
Financial systems (interim report)	January 2005	May 2005	KPMG
Financial aspects of corporate governance	November 2004	March 2005	Paul Grady
National Policing Plan report	TBA	TBA	
Partnerships stage II report	TBA	TBA	
Consultation with users/user focus report	TBA	TBA	
Devolution and financial management report	TBA	TBA	
Follow up report on HR/workforce issues	TBA	TBA	
Follow up report on IT benefits realisation	TBA	TBA	
BVPP opinion	July 2004	October 2004	Paul Grady
Audit report on the BVPIs	July 2004	October 2004	Paul Grady
Report on NCRS compliance	May 2004	August 2004	Jon Hayes
Report on the implementation of ABC	July 2004	September 2004	Neil Gray

## The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with Statements of Auditing Standards (SAS) when auditing the financial statements. SAS 610.3 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The SAS 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 Audit Panel. The auditor reserves the right, however, to communicate directly with Authority on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity
- exercise their professional judgement and act independently of both the Commission and the audited body
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a de minimis amount (currently the higher of £25,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the de minimis amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director
- audit staff are expected not to accept appointments as lay school inspectors
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements)
- audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.