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Traffic light explanation overleaf

- **Red**
- **Amber**
- **Green**
Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

| Unqualified audit opinion | ✓ |
| Proper arrangements to secure value for money | ✓ |

Audit opinion

1 I am nearing completion of my work on the financial statements. Subject to the satisfactory completion of outstanding audit work I propose to give an unqualified opinion on the 2010/11 financial statements by the deadline of 30 September 2011. I expect to issue my certificate to close the 2010/11 audit at the same time. My draft opinion is at Appendix 1 and I have listed the outstanding audit work at the date of this report in paragraph 6 below.

Financial statements

2 The Authority submitted its financial statements for audit by the deadline of 30 June 2011. MPA/S Finance staff have managed the first-time adoption of International Financial Reporting Standards (IFRS) well. My audit testing found the Authority had accounted for all significant changes arising under IFRS correctly, including accounting for leases and employee benefits due at the balance sheet date.

3 Management has adjusted the financial statements for 12 amendments identified during the audit. These amendments are presentational in nature and do not affect the Authority's reported financial position or available reserves but they are of a value that I am required to report to you. I have provided details of these amendments in Appendix 2 of this report.

Value for money

4 I am satisfied that in all significant respects the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. I therefore expect to issue an unqualified value for money conclusion by 30 September 2011. My draft conclusion is at Appendix 1. I have set out the key findings and recommendations from my work on pages 13 to 15 below.
### Before I complete my audit

<table>
<thead>
<tr>
<th>I confirm to you</th>
<th>My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independence</strong></td>
<td>I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.</td>
</tr>
<tr>
<td></td>
<td>During the year the Audit Commission's Audit Practice undertook non-audit work for the Authority for a fee of £29,000. We delivered ten fraud awareness workshops to 350 senior MPS officers and managers as part of the MPA's and MPS's joint Anti-Fraud Strategy.</td>
</tr>
</tbody>
</table>
| I ask you to confirm to me | **I ask the Authority to:**  
- note the adjustments to the financial statements which are set out in this report (Appendix 2);  
- approve the letter of representation, provided alongside this report, on behalf of the Authority before I issue my opinion and conclusion (Appendix 3); and  
- agree your response to the proposed action plan (Appendix 4). |
Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters listed at paragraph 6 below, I plan to issue an audit report including an unqualified opinion on the financial statements by 30 September 2011. Appendix 1 contains a copy of my draft audit report.

Status of audit work

The following areas of audit work are outstanding at the date of my report:

- testing the Authority's group accounts submission to the GLA and Whole of Government Accounts (WGA) submission to Communities and Local Government;
- reviewing a revised set of statements to ensure finance officers have made all agreed audit adjustments; and
- receiving the signed Letter of Representation following Authority consideration on 15 September 2011.

I expect to complete all outstanding work before 30 September 2011. Should any significant matters arise in finishing the outstanding work, I will raise them with the MPA Treasurer, MPS Director of Resources and the Chair of the Corporate Governance Committee.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.
Financial statements

Quality of the financial statements
The Authority submitted its financial statements to audit by the deadline of 30 June 2011. Working papers provided to support the accounts have continued to be of a good quality this year. Finance staff have worked effectively with the audit team to ensure the prompt resolution of audit queries.

International Financial Reporting Standards

Police authorities, in common with other local government bodies, were required to prepare their financial statements in line with International Financial Reporting Standards (IFRS) for the first time in 2010/11. IFRS requirements differ significantly from UK Generally Accepted Accounting Practice (UK GAAP) which authorities have prepared their accounts under in previous years in several respects, more details of which are in Table 2 below.

IFRS adoption has been a significant exercise because the CIPFA Code requires retrospective adoption of the new standards covering areas like PFI and leases. This has required finance officers to review PFI contracts and lease agreements and, where necessary, restate accounting entries from the beginning of these agreements onwards. To prepare for IFRS, authorities have needed robust project plans to ensure they can collect and review the necessary information to restate balances, often with considerable lead-in times, and agree these with auditors at an early stage. In some areas of the financial statements, significant judgements are required in interpreting international standards and their applicability to local circumstances. MPA/S finance officers have set out the significant judgements made in preparing the Authority’s financial statements at 1.2 of the accounting policies.

I am satisfied the Authority has prepared for IFRS well. I reviewed management’s arrangements for preparing for the transition to IFRS and concluded these were robust. There has been good, timely communication of proposed accounting changes with my audit team. I have audited all material adjustments made in the financial statements relating to IFRS. This work found that finance officers had adopted all expected accounting changes correctly with no significant errors identified. I am therefore satisfied the Authority has restated its financial statements correctly in line with IFRS requirements. My audit did however identify some presentational adjustments which management has agreed to correct which I have outlined below.
Adjustments to the financial statements

12 I calculated materiality for my audit to be £47,483k based on the Authority's General Fund balance at 31 March 2011 in line with the Audit Commission's Audit Approach. I set my triviality level at £475k based on 1 per cent of materiality. In accordance with ISA+ 320, information is 'material' to the financial statements if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

13 I identified 12 amendments in the financial statements which I consider non-trivial and which management has agreed to correct. All of these amendments are presentational in nature and do not affect the Authority's reported financial performance or reserves position. I have listed each of the agreed amendments in Appendix 2. I identified no further errors that management has not agreed to correct.

Accounting practices

14 I consider your accounting practices, accounting policies, accounting estimates and financial statement disclosures. Except for the issue in Table 1 below I am satisfied the Authority has complied with the proper practices in the IFRS-based CIPFA Code of Practice in preparing its financial statements.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note 20: Long-term debtors</td>
<td>The Authority's long-term debtors on the Balance Sheet include a £2.2 million in respect of the National Offenders Management Service (NOMS). This balance has existed since 2000 relating to borrowing undertaken by the MPS on behalf of the Inner London Probation Service, which ceased to exist in 2001. Its functions were subsequently transferred to NOMS. Management is in continuing discussion with NOMS and believes the £2.2 million is collectable. However, at the date of my report these discussions had not resulted in the payment of this balance to the Authority by NOMS. Given the time since the MPS raised this debt it is important this issue is resolved promptly, especially as the Police and Social Responsibility Bill is likely to require the transfer of balances currently held by the Authority to the new Mayor's Office for Policing and Crime.</td>
</tr>
</tbody>
</table>

Recommendation

R1 Review the collectability of £2.2 million of overdue debt with the National Offenders Management Service with the aim of either collecting the amount due or writing it off.
Key areas of judgement and audit risk

In planning my audit I identified specific risks and areas of judgement that I have considered in addition to my normal audit procedures. Table 2 summarises the work I have undertaken in response to the specific audit risks in my 2010/11 Audit Plan which I reported to the MPA Corporate Governance Committee on 10 March 2011.

Table 2: Key areas of judgement and audit risk

<table>
<thead>
<tr>
<th>Audit risk</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial outlook</td>
<td>My audit included testing receipts and payments made in March and April 2011 and confirmed the Authority had accounted for all 2010/11 transactions correctly in the financial statements. I tested the assumptions used by management when making material estimates in the financial statements. My testing of debtor and creditor balances at 31 March 2011 identified no errors. I am therefore satisfied the Authority's income and expenditure reported in the financial statements is fairly stated.</td>
</tr>
<tr>
<td>International Financial Reporting Standards</td>
<td>My audit of the Authority's restated 2009/10 statements and draft 2010/11 statements found the Authority has correctly identified and acted on all the accounting changes required by CIPFA's IFRS-based Code and in particular the changes listed in the previous column.</td>
</tr>
</tbody>
</table>

Financial outlook

Public bodies face increasing pressure to deliver their financial plans during a period of reduced funding while still meeting demand for their services. In my 2010/11 Audit Plan I reported there was a risk that errors or deliberate manipulation of the Authority's income and expenditure could distort the Authority's true financial position.

International Financial Reporting Standards

The Authority produced financial statements in line with IFRS for the first time in 2010/11. This change in the financial reporting framework has a significant impact in several accounting areas including:

- leases, with stricter criteria determining when leases should be accounted for on the
Audit risk

Authority's balance sheet as ‘finance leases’;

- a new requirement to identify and depreciate material components of fixed assets separately; and
- liabilities relating to employee compensated absences mainly untaken holiday entitlements, which the Authority will need to calculate and include on its balance sheet.

In my 2010/11 Audit Plan I reported there was a risk of material misstatement in the financial statements if these changes were not identified and accounted for correctly.

Costs of organisational change

The Authority has offered severance packages to certain groups of staff as one means of delivering the financial savings required in 2011/12 and beyond. Severance packages can be complex, politically sensitive and require careful accounting.

In my 2010/11 Audit Plan I reported there was a risk of material misstatement in the financial statements if the Authority did not account for the liabilities arising from redundancies correctly.

Finding

Although there were a number of amendments required to the draft 2010/11 statements in relation to IFRS these were presentational in nature and did not affect the Authority's reported financial position. I am therefore satisfied the Authority has implemented IFRS first-time adoption well.

My audit found that liabilities and potential liabilities arising from organisational change have been accounted for in line with relevant accounting standards and there are no issues to report.

Post-balance sheet events

15 Following the riots in London in August 2011 I have asked the Authority to disclose a non-adjusting post-balance sheet event for the potential insurance claims it will receive from third parties in respect of riot damages under the Riot (Damages) Act 1886. The Authority has also included a non-adjusting post-balance sheet event in the financial statements for the estimated £52 million of redundancy payments it has committed to make since 31 March 2011.

16 These additional disclosures relate to costs incurred in 2011/12 so are presentational only in the 2010/11 financial statements. They do not affect the Authority's reported financial performance for 2010/11 or reserves position at 31 March 2011.
Financial statements

Material weaknesses in internal control
My audit has identified no material control weaknesses that could result in a material error occurring in your financial statements. My review of Internal Audit's work confirmed this met quality standards allowing me to place reliance on it rather than perform additional testing of my own.

Other weaknesses in internal control

Director of Audit Risk and Assurance's Annual Report
17 The Director of Audit, Risk and Assurance presented her Annual Report for 2010/11 to the MPA Corporate Governance Committee on 7 July 2011. She concluded there had been a continued improvement in the internal control environment during 2010/11 but that overall the control environment is still not fully effective.

18 The Authority is exposed to financial and reputational risks where management controls, for example those for recording and securing crime property, are not effective. It is therefore important that management continue to focus efforts on improving the internal control environment so the Authority's systems consistently operate as designed.

Covert bank accounts
19 The Authority’s covert bank accounts are included in its cash balance on the Balance Sheet. I tested these balances on a sample basis to confirm they are fairly stated. My testing identified no errors but did not provide complete assurance that covert balances are fairly stated because:

− at the date of my audit the Authority had not yet reconciled 35% of its covert bank accounts to 31 March 2011 bank statements, although I note it plans to complete all reconciliations and that this work is ongoing. The Authority has focused on reconciling the accounts with the largest volume of transactions first, which is good practice; and
− at the date of my audit the Authority had not reconciled the balances on its covert bank accounts to the balances reflected in its main accounting system and therefore its financial statements.
I understand that reconciling all accounts to bank statements logistically takes time to complete and it is not always possible to complete all such reconciliations in time for my audit. However, where all reconciliations have not been completed, preparing a separate reconciliation to confirm that the total of all individual covert bank accounts agrees to the headline covert balances in the main accounting system provides a useful cross-check for both management and audit to confirm the balances reflected in the main accounting system and therefore the financial statements are materially accurate.

At the date of this report, the Authority had completed such a reconciliation for two of the five high-level covert balances in its main accounting system only.

As a result I have not been able to conclude that all covert bank balances are correctly stated in the financial statements. I am satisfied these balances are not material to the financial statements in total. However, I have asked management to confirm in the Letter of Representation that the accounting records maintained for covert transactions are materially accurate.

**Recommendation**

**R2** Strengthen accounting arrangements for covert bank accounts by reconciling the total value of covert bank account balances to the headline covert balances in the main accounting system trial balance at 31 March.

**IT control environment**

I carried out audit work on the Authority's IT environment insofar as it relates to the financial systems used in preparing the financial statements. I am satisfied the IT control environment is well controlled overall but identified two areas where controls could be strengthened further which I have summarised below.

**External assurance over outsourced IT providers**

My audit considered the controls in place over areas of the Authority's third-party suppliers CapGemini for IT service provision and LogicaCMG for payroll and pensions. I am satisfied the Authority has appropriate in-house controls to prevent material error occurring in the financial statements because of any control weaknesses that may be present in these third parties' processes. However, the Authority should also seek independent assurance over the control environment in place at CapGemini and LogicaCMG. This normally takes the form of a 'SAS 70' or equivalent report provided by the suppliers' external auditor and would provide management with further assurance that its IT service providers has robust controls in place.

**SAP main accounting system**

My audit found the Authority has appropriate arrangements to back up its SAP main accounting system but found that system recovery tests to confirm these arrangements are working effectively have not been carried out in the last 12 months. Management should carry out periodic recovery tests to confirm data can be retrieved and the system restored promptly in the event of a system failure.
**Recommendations**

**R3** Request assurance from the external auditor of the CapGemini and LogicaCMG to provide assurance over the adequacy of these suppliers' systems of internal control.

**R4** Carry out periodic system recovery tests on the SAP main accounting system to confirm data can be retrieved and the system restored promptly in the event of a system failure.
I am required to conclude whether the Authority put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

25 I intend to issue an unqualified conclusion stating the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft conclusion.

26 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission, focusing on the Authority's arrangements for:
- securing financial resilience, focusing on whether the MPA and MPS are managing financial risks to secure a stable financial position; and
- challenging how the MPA and MPS are securing economy, efficiency and effectiveness, focusing on whether the MPA and MPS are prioritising resources within tighter budgets and improving productivity and efficiency.

27 I have set out my findings and recommendations in each of these areas below.

### Value for money criteria and our findings

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial resilience The Authority has proper arrangements in place to secure financial resilience.</td>
<td>The MPA and MPS have a track record of delivering efficiency targets. The 2010/11 financial statements report an underspend against budget of £5.6 million. This required the delivery of £124 million of efficiency savings and additional savings of £33 million following the decrease in revenue grant funding announced by the Home Office during the year.</td>
</tr>
<tr>
<td></td>
<td>The Authority has set a balanced budget for 2011/12 as part of its medium-term financial strategy for the three-year period 2011 - 14. It prepared well for the impact of HM Treasury's Comprehensive Spending Review (CSR) 2011 - 15 announced in October 2010 by identifying the savings required under several budget scenarios. This allowed it to start identifying how it would deliver the £163 million required to balance the 2011/12 budget in advance of the CSR</td>
</tr>
</tbody>
</table>
## Criterion | Findings
---|---
| | announcement.

The Authority has quantified the budget gap it will need to 'close' for the two years to 2013/14, of £93 million and £174 million respectively. Delivering these savings will be challenging when the MPS is committed to the significant demands associated with policing the 2012 Olympic Games. The Authority will also need to ensure effective governance and scrutiny of savings is maintained during the period leading up to its replacement by the Mayor's Office for Policing and Crime in early 2012.

The 2011/12 budget includes no reductions in operational capability. The MPA and MPS have achieved this through robust efficiency planning, a planned decrease in general reserves from £71 million to £43 million over the next three years, and £20 million of extra funding secured from the London Mayor.

The Authority's medium-term financial plan, as summarised in the current Policing London Business Plan, covers the period 2011 - 2014. While there is much uncertainty beyond this period, for example over inflation and the outcome of the Winsor review of police pay, the Police Grant settlement for 2014/15 is known. The Authority started work to estimate the budget gap and the savings it will need to identify for 2014/15 early in 2011/12. It will continue to develop financial plans for the period to 2014/15 through regular business planning exercises.

### 2. Securing economy efficiency and effectiveness

The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The Authority's medium-term financial strategy includes savings of £746 million the Authority expects to deliver in the three-year period to 2013/14. The Authority expects to deliver these savings principally through a series of major change programmes. The largest of these is the Territorial Policing Development Programme (£124 million planned savings). The MPS's other business groups have similar schemes as well as corporate schemes like Corporate Real Estate (£93 million planned savings).

Appropriate governance arrangements are in place both in the MPS and MPA to scrutinise individual change programmes. Management has recently enhanced the monitoring information received by the MPA and by MPS Management Board to monitor the delivery of each of the major change programmes. It is important this information is used effectively to ensure the risks to the delivery of these programmes are well managed and any delays or emerging risks dealt with at an early stage. The Authority will also need to review the benefits realised by programmes that have recently completed like Transforming HR to ensure lessons learned can be applied to other programmes where appropriate. The Authority is planning to carry out the benefits realisation review for the THR project in autumn 2011.

The MPA and MPS have made effective use of cost benchmarking in some areas, including achieving £40 million of savings identified through benchmarking costs when renegotiating ICT contracts. The MPS has previously used
<table>
<thead>
<tr>
<th>Criterion</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HMIC's Value for money profile to identify areas of comparatively high cost including premises and ICT, and has targeted savings plans in these areas. It also used HMIC's Value for money profile to help inform the MPA member-led scrutinies of the 2011/12 budget. There remains scope to use cost benchmarking at a more detailed level to compare the unit costs of individual functions with similar forces. At this level of detail it should be possible to estimate and adjust costs for the impact of London factors to allow meaningful comparisons of costs.</td>
</tr>
</tbody>
</table>

**Recommendations**

**R5** Continue to look for opportunities to benchmark the unit costs of individual services and functions with the MPS's most similar forces and other similar organisations to identify areas where costs appear high and review whether efficiencies can be achieved in these areas.
Appendix 1 – Draft auditor’s report to Members of the Metropolitan Police Authority

Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the police pension fund accounting statements of the Metropolitan Police Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Metropolitan Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Treasurer is responsible for the preparation of the Authority’s Statement of Accounts, including the police pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice’s Board’s Ethical Standards for Auditors.
Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and the Pension Fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements
In my opinion the accounting statements:
- give a true and fair view of the state of the Metropolitan Police Authority’s affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the police pension fund during the year ended 31 March 2011 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters
In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception
I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007.
Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities
The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities
I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion
I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
Conclusion
On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, the Metropolitan Police Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate
I certify that I have completed the audit of the accounts, including the police pension fund accounting statements, of the Metropolitan Police Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[Signature]

Karen McConnell
Officer of the Audit Commission

First floor, Millbank Tower
Millbank
London
SW1P 4HQ
[Insert date]
Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements.

Table 3: Adjusted misstatements

<table>
<thead>
<tr>
<th>Area of statements</th>
<th>Nature of adjustment</th>
<th>Accounts effected</th>
<th>Adjustment (£000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive Income &amp; Expenditure Statement (CIES): presentation</td>
<td>Management has agreed to amend some aspects of the format of the CIES so they are in line with the format outlined in the CIPFA Code.</td>
<td>CIES statement to be amended to include sections required by the Code: &quot;Other operating expenditure&quot;, &quot;Financing and Investment Income/Expenditure&quot; and &quot;Taxation and non-specific Grant Income&quot;</td>
<td>Narrative only</td>
</tr>
</tbody>
</table>
| Comprehensive Income & Expenditure Statement (CIES): Cost of discretionary benefits | Technical accounting guidance issued during the audit confirms the £6.9 million cost of benefits awarded to early retirees should be allocated to the services in the Comprehensive I&E Statement (CIES) to which they relate rather than shown in "Non-distributed costs" in the CIES. | Dr: CIES: Service Expenditure Analysis  
Cr: CIES: Non-distributed costs | 6,923 |
| Comprehensive Income & Expenditure | Technical accounting guidance issued during the audit confirms £93.1 million of actuarial gains in respect of liabilities to pay Injury Benefits to police officers retiring early as a result | Dr: CIES Other Comprehensive Income and Expenditure  
Cr: CIES: Service Expenditure Analysis | 93,125 |
<table>
<thead>
<tr>
<th>Area of statements</th>
<th>Nature of adjustment</th>
<th>Accounts effected</th>
<th>Adjustment (£000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement (CIES):</td>
<td>of work-related injuries should be charged to services in the</td>
<td>The Authority has restated the 2009/10 comparators to show these on the same basis, the adjustment required being a reclassification of £361.4 million of costs previously shown in &quot;Other comprehensive Income and Expenditure&quot; in the CIES to present these as costs in the Service Expenditure Analysis in the CIES instead. The change brought about by the technical guidance also results in the following changes to the Authority's long-term liabilities to pay pensions and injury benefits on the Balance Sheet:</td>
<td></td>
</tr>
<tr>
<td>Injury Benefits</td>
<td>Injury Benefits Actuarial Gains Losses</td>
<td>at 1 April 2009, liability increased by £279.7 million</td>
<td></td>
</tr>
<tr>
<td>Actuarial Gains</td>
<td>of work-related injuries should be charged to services in the Comprehensive Income and Expenditure Statement (CIES) rather than in &quot;Other comprehensive Income and Expenditure&quot; in the CIES. This has a knock-on impact on various other actuarial figures presented in the financial statements, as shown in the next column.</td>
<td>at 31 March 2010, liability increased by £527 million</td>
<td></td>
</tr>
<tr>
<td>Losses</td>
<td></td>
<td>at 31 March 2011, the Authority's closing long-term liability in respect of pensions and injury benefit awards at 31 March 2011 is unchanged.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The change brought about by the technical guidance also results in the following changes to the 2010/11 CIES:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Police Pensions Interest Cost is increased by £26.4m to £1,003 million (2009/10 equivalent also restated to</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The change brought about by the technical guidance also results in the following changes to the 2010/11 CIES:</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td>- Police Pensions Interest Cost is increased by £26.4m to £1,003 million (2009/10 equivalent also restated to</td>
<td></td>
</tr>
<tr>
<td>Area of statements</td>
<td>Nature of adjustment</td>
<td>Accounts effected</td>
<td>Adjustment (£000s)</td>
</tr>
<tr>
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</tr>
<tr>
<td>Comprehensive Income &amp; Expenditure Statement (CIES): Surplus on revaluation of non-current assets</td>
<td>The CIPFA Code requires the reversal of prior year revaluation losses of £18.5 million be accounted for in the Movement in Reserves Statement (MiRS) rather than as a gain in &quot;Other comprehensive income and expenditure&quot; in the CIES.</td>
<td>Dr: CIES: Surplus on Revaluation, Cr: MiRS: Adjustments between Accounting basis and funding basis</td>
<td>18,461</td>
</tr>
<tr>
<td>Comprehensive Income &amp; Expenditure Statement (CIES): Revaluation</td>
<td>The CIPFA Code requires revaluation losses of £6.4 million be taken to the Revaluation Reserve via the CIES because this statement shows all the Authority’s gains and losses for the year. The Authority had accounted for these losses in the</td>
<td>Dr: CIES: Other Comprehensive Income and Expenditure, Cr: MiRS: Adjustments between Accounting Basis &amp; Funding Basis under Regulations</td>
<td>6,471</td>
</tr>
</tbody>
</table>

£869 million
- Exceptional Item resulting from changes to inflation measure used to calculating pensions liabilities is increased by £64m to £2,262 million
- The actuarial gain on pension liabilities in the CIES increasing by £396 million from £866 million to £1,262 million (2009/10 equivalent also restated to £6,066 million).

All of the above changes to the CIES are reversed out through the Movement in Reserves Statement (MiRS) so there is no overall impact on the General Revenue Reserve or the Authority’s reported financial performance for the year.

- Exceptional Item resulting from changes to inflation measure used to calculating pensions liabilities is increased by £64m to £2,262 million
- The actuarial gain on pension liabilities in the CIES increasing by £396 million from £866 million to £1,262 million (2009/10 equivalent also restated to £6,066 million).
<table>
<thead>
<tr>
<th>Area of statements</th>
<th>Nature of adjustment</th>
<th>Accounts effected</th>
<th>Adjustment (£000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses</td>
<td>Revaluation Reserve but not in the CIES in the draft financial statements.</td>
<td></td>
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</tr>
</tbody>
</table>
| Movement in Reserves Statement (MiRS): Pensions Costs | The CIPFA Code requires actuarial gains of £1,263m in respect of police officer pension liabilities be presented in "Other Comprehensive Income/Expenditure" in the MiRS rather than "Adjustments between funding basis" in the MiRS. | Dr: MiRS: Other Comprehensive Income and Expenditure - Police Pension Funds  
Cr: MiRS: Adjustments between accounting basis - Police Pension Funds | 1,262,800 |
<p>| Note 3: Segmental Analysis | The CIPFA Code requires authorities to prepare a reporting entity to show income and expenditure in respect of each of their significant business segments for the year. The Authority has presented this disclosure at Note 4 to the statements. It has amended this note to include £34 million of discretionary pension costs so Note 4 is consistent with the revenue outturn reported on page 3 of the Explanatory Foreword to the statements. | Note 3 Segmental Analysis: Total Operating Expenditure | 34,288 (Increase to expenditure disclosed in Note 4. No impact on primary statements.) |
| Note 4: Police officers' and police staff remuneration | Management has amended the termination payments made in 2010/11 disclosed in Note 4 from £3.3 million to £10.9 million since providing me with the draft financial statements. It has made this change to include the additional pension costs the Authority has incurred as a result of offering employees voluntary redundancy. Previously it included only the costs of the redundancy payments to these individuals. | Amend termination payments disclosed in Note 4: Police officers' and police staff remuneration from £3.3 million to £10.9 million. | 7,600 (Increase to expenditure disclosed in Note 4. No impact on primary statements.) |
| Note 10: National policing and international and capital city functions | Note 10 amended so NICC-related income is consistent with the equivalent grant income figures included in the Comprehensive Income and Expenditure Statement (CIES). | National policing grants from central government to be increased by £7m from £550m. | 7,000 |
| Note 26: Short-term creditors | NHS creditor balances of £1,082k are incorrectly classified within &quot;other creditors&quot; rather than &quot;health bodies&quot; in Note 26. | Dr: Note 26 (Short-term creditors) - Other creditors | 1,082 |</p>
<table>
<thead>
<tr>
<th>Area of statements</th>
<th>Nature of adjustment</th>
<th>Accounts effected</th>
<th>Adjustment (£000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note 39: Post Balance Sheet Events</td>
<td>Following the riots in London in August 2011 I have asked the Authority to disclose a non-adjusting post-balance sheet event for the potential insurance claims it will receive from third parties in respect of riot damages under the Riot (Damages) Act 1886. The Authority has also included a non-adjusting post-balance sheet event in the financial statements for the estimated £52 million of redundancy payments it has committed to make since 31 March 2011.</td>
<td>Disclose non-adjusting post-balance sheet events in the financial statements in respect of: - riot damages claims made to the Authority under the Riot (Damages) Act 1886 following the August 2011 riots; and - redundancy costs the Authority has committed to make in 2011/12.</td>
<td>Narrative only</td>
</tr>
<tr>
<td>Note 40: Financial Instruments</td>
<td>The CIPFA Code defines financial instruments as &quot;any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.&quot; The Authority has disclosed its financial instruments in Note 40 to the financial statements. I have agreed the following amendments to Note 40 with management so that: - Long-term debtors, current investments and current creditors disclosed in Note 40 are consistent with the balances shown on the Balance Sheet; and - Current Debtors and Current Creditors disclosed in Note 40 include debtor and creditor balances arising under contract with central government bodies.</td>
<td>- The outstanding balance of £23 million due from Landsbanki to be disclosed in Note 40 as a long-term debtor rather than a long-term investment. - Current Investments disclosed in Note 40 to be increased by £25m to £90m to match Investments per Balance Sheet. - Current Creditors disclosed in Note 40 to be increased by £6.4m to include Bank overdraft figure per Balance Sheet. - Current Creditors disclosed in Note 40 to be increased by £36.9m and Current Debtors to be increased by £84.6m to include non-statutory</td>
<td>23,214</td>
</tr>
<tr>
<td>Area of statements</td>
<td>Nature of adjustment</td>
<td>Accounts effected</td>
<td>Adjustment (£000s)</td>
</tr>
<tr>
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<tr>
<td></td>
<td></td>
<td>balances with Central Government bodies.</td>
<td>impact on primary statements.)</td>
</tr>
</tbody>
</table>
Appendix 3 – Draft letter of representation

To:
Ms Karen McConnell, District Auditor
First floor, Millbank Tower
Millbank
London
SW1P 4HQ

Metropolitan Police Authority - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Metropolitan Police Authority, the following representations given to you in connection with your audit of the Authority’s financial statements for the year ended 31 March 2011. All representations cover the Authority’s accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities
I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records
All relevant information and access to persons within the entity [as agreed in the engagement letter] has been made available to you for the purpose of your audit, and all the transactions undertaken by the Authority have been properly reflected and recorded in the financial statements.
Irregularities
I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

− my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
− my knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others; and
− the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice
I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values
I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions
I confirm that I have disclosed the identity of the Authority’s related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events
All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Specific representations

Covert accounts
We confirm that the financial transactions maintained for police covert activity are materially accurate.
**Bank accounts**
We are not aware of any bank accounts held by the Authority that have not been disclosed in the financial statements.

**Private Finance Initiative**
There have been no variations or amendments to the terms of either of the Authority's PFI contracts below which could have a material effect on the value of PFI assets, liabilities and related expenditure disclosed in the financial statements.

- Contract 1 – South London police stations; and
- Contract 2 – Gravesend public order and firearms training centre.

I confirm that this letter has been discussed and agreed by the Authority on 15 September 2011. Signed on behalf of the Metropolitan Police Authority.

Mr Robert Atkins  
MPA Treasurer  
Date:

Ms Catherine Crawford  
MPA Chief Executive  
Date:

Lord Toby Harris  
Chair of MPA Corporate Governance Committee  
Date:

Signed on behalf of the Metropolitan Police Service.

Ms Anne McMeel  
MPS Director of Resources  
Date:
## Appendix 4 – Action plan

### Recommendation 1

Review the collectability of £2.2 million of overdue debt with the National Offenders Management Service with the aim of either collecting the amount due or writing it off.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>MPA Treasurer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority</td>
<td>Low</td>
</tr>
<tr>
<td>Date</td>
<td>31 March 2012</td>
</tr>
</tbody>
</table>

Comments: Agreed. The MPA/MPS have been assured of payment of overdue debt with the National Offenders Management Service in writing but will increase efforts to ensure payment received as soon as possible.

### Recommendation 2

Strengthen accounting arrangements for covert bank accounts by reconciling the total value of covert bank account balances to the headline covert balances in the main accounting system trial balance at 31 March.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>MPS Director of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority</td>
<td>Medium</td>
</tr>
<tr>
<td>Date</td>
<td>31 March 2012</td>
</tr>
</tbody>
</table>

Comments: Agreed. The MPA/MPS has always performed detailed checks on covert expense claims and receipts, validating individual items against the bank statements. However in previous years ‘full’ bank reconciliations were prioritised on a ‘risk’ basis (with high risk account reconciliations being performed more frequently). In response to the audit recommendations made in 2009/10 the Authority has adopted a more comprehensive approach and has recruited a new member of staff in April 2011 to complete 100% of the bank reconciliations (average 230 accounts) on a regular basis. The bank reconciliation process...
has also been transferred to Exchequer Services in view of its importance. Following the necessary training and preparatory work, the MPA/MPS is confident that in future years the correct processes will be in place to ensure appropriate reconciliations are performed within the Annual Audit timetable.

### Recommendation 3

Request assurance from the external auditor of the CapGemini and LogicaCMG to provide assurance over the adequacy of these suppliers’ systems of internal control.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>MPS Director of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority</td>
<td>Medium</td>
</tr>
<tr>
<td>Date</td>
<td>31 March 2012</td>
</tr>
<tr>
<td>Comments</td>
<td>To be investigated. In general where the delivery of any contracted services is managed from a supplier's environment, the MPA/MPS seeks independent assurance over the control environment and a physical security site survey is carried out by personnel from DoI Security Standards &amp; Architecture and the MPS' Physical Security Unit (SO6), which as well as covering physical security includes relevant personnel security aspects and other internal controls. In respect of LogicaCMG an additional compliance inspection was recently carried out in October 2010 by DoI Security Standards &amp; Architecture in response to a MPA Internal Audit recommendation and did cover aspects relating to internal controls. In relation to the contract with CapGemini there will be an independent assessment in the second half of 2011/12 of all due security processes, risks and internal controls as part of the re-accreditation of the Aware System. In response to the Audit Commission’s recommendation, the MPA/MPS will liaise with the External Auditors of CapGemini and LogicaCMG, to evaluate what other forms of assurance exist in relation to these suppliers' systems of internal control.</td>
</tr>
</tbody>
</table>

### Recommendation 4

Carry out periodic system recovery tests on the SAP main accounting system to confirm data can be retrieved and the system restored promptly in the event of a system failure.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>MPS Head of Application Management Group, Directorate of Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority</td>
<td>Medium</td>
</tr>
<tr>
<td>Date</td>
<td>31 December 2011</td>
</tr>
<tr>
<td>Comments</td>
<td>Agreed. Currently full Oracle database backups are taken daily, with full Server file system backups taken once per week with daily incremendals. Restores have been performed from these backups in pre-production, user acceptance testing and development environments. The MPA accepts the importance of performing ‘periodic system recovery tests on the SAP main accounting system (in all environments) and is currently talking with providers CapGemini (Unysis) with a view to establishing how frequently these tests can be performed in relation to cost and risk.</td>
</tr>
</tbody>
</table>
**Recommendation 5**

Continue to look for opportunities to benchmark the unit costs of individual services and functions with the MPS’s most similar forces and other similar organisations to identify areas where costs appear high and review whether efficiencies can be achieved in these areas.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>MPS Director of Finance</th>
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</thead>
<tbody>
<tr>
<td>Priority</td>
<td>Medium</td>
</tr>
<tr>
<td>Date</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

**Comments**

Agreed. The MPA/MPS continues to look for opportunities to make comparisons with other organisations and during 2010/11 was actively involved in developing a common Chart of Accounts with forces in the South East region prior to its adoption by CIPFA. It has also been involved in examining collaboration opportunities as well as making use of VFM HMIC data. The challenge for the MPA/MPS is comparability with other forces given its scale and unique role and we prefer to adopt a more targeted approach; making comparisons with fewer but similar sized organisations, addressing specific issues such as collaboration/re-structuring or benchmarking specific contracts during tender process.
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 non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.