

Audit Plan

April 2006



Audit Plan

Metropolitan Police Authority

Audit 2006-2007

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

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 members or officers. They are prepared for the sole use of the audited body.

Auditors accept no responsibility to:

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

Copies of this report

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Introduction

- 1 This plan sets out the audit work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
 - our responsibilities under the Code of Audit Practice;
 - work specified by the Audit Commission for 2006/07;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.

Our responsibilities

- 2 In carrying out our audit duties, we have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998;
 - the Code of Audit Practice (the Code); and
 - the Local Government Act 1999.
- 3 The Code defines auditors' responsibilities in relation to:
 - the financial statements of audited bodies; and
 - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding audited bodies' arrangements for ensuring value for money in the use of resources. We will give the first such conclusion by 30 September 2006 as part of the 2005/06 audit.

The fee

- 4 For 2006/07, the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee Scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 5 The total fee estimate for the Metropolitan Police Authority (MPA) for 2006/07 is £525,000 (2005/06: £516,000). This fee includes all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions the MPA and the Metropolitan Police Service (MPS) could take to reduce audit fees and the process for agreeing any additional fees.
- 6 Changes to the plan and the fee may be necessary if our risk assessment changes during the course of the audit. This is particularly relevant to the work related to the opinion on the 2006/07 accounts, since we have yet to audit the accounts for 2005/06. We will formally advise you of any changes if this is the case.

Summary of key audit risks

- 7 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
 - provide an opinion on your financial statements;
 - provide a conclusion on your use of resources;
 - carry out audit work as specified by the Audit Commission; and
 - provide a report on the Authority's best value performance plan (BVPP).
- 8 In assessing risk, we have held discussions with senior officers in the MPA and MPS, with the Director of Internal Audit and with Her Majesty's Inspector of Constabulary (HMIC). We have also met the Chair of the MPA and discussed our initial audit risk assessment with the Corporate Governance Committee. We have also reviewed significant documents, including:
 - the MPS' corporate strategy;
 - Towards the Safest City, the property and estates strategy; and
 - the Annual Policing Plan.
- 9 Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.
- 10 The expected outputs from this work are outlined in Appendix 3.

Value for money conclusion

- 11 We will focus our work so as to enable us to conclude whether you have put in place proper arrangements to secure economy, efficiency and effectiveness with regard to the use of resources (the value for money conclusion).
- 12 The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. Sources of assurance will include the auditor's cumulative knowledge and experience including the results of previous work and the work of other regulatory agencies (including Internal Audit).

- 13 In addition, appointed auditors will be required to deliver a new use of resources' judgement for all police authorities in 2006/07 to inform HMIC's baseline assessment. Such work will be over and above that required to meet auditors' responsibilities under the Code of Audit Practice. We have included an estimate in the fee based on our experience in the use of resources' judgements completed as part of IPA follow-up work (reported in the 2005 Annual Audit Letter). Additional fees may need to be charged once the national fee arrangements for the use of resources' judgements are clarified and we will discuss this with the Treasurer when more details are available.
- 14 From our initial risk-based planning assessment, we have identified the following areas of audit risk to be addressed.

Table 1 Summary of use of resources audit risks

Audit risk	Response
<p>Managing police officers' overtime</p> <p>Police officers' overtime is an important facility in resource planning and a significant element of the MPA's expenditure, budgeted at £107 million in 2005/06. Despite a considerable improvement focus from the MPA and MPS, the budget has been subject to large overspends for a number of years, presenting an ongoing risk to the overall financial position.</p>	<p>We will review the arrangements for managing police officers' overtime, working closely with Internal Audit.</p>
<p>Asset management</p> <p>The MPS' arrangements for managing its assets, particularly estates, continue to develop. The scale of the maintenance backlog, and the resources available to fund improvements, present major barriers to delivering the property and estates strategy, however. This situation presents a number of risks to operational policing and service delivery to Londoners.</p>	<p>We will review arrangements for asset management, focusing on delivery of the property and estates strategy.</p>

Audit risk	Response
<p>Implementing C3i</p> <p>The C3i project is now in its implementation phase, necessitating fundamental changes in the way the MPS delivers policing in London. Effective management of the change process is key to the project's success.</p>	<p>We will review progress in implementing C3i in the MPS, focusing on the business process reengineering necessary to deliver success.</p>
<p>Partnerships</p> <p>Partnerships remain key to delivering the corporate priorities of the MPA and MPS. The Service Review identified scope for improvement in how the MPS manages working in partnership.</p>	<p>We will follow-up our 2004/05 review of partnerships.</p>

Data quality audit

- 15 Following the work undertaken by the Commission's auditors on crime data during 2005/06, a fourth year of crime data reviews is currently being planned. This will involve building on the work from previous years on crime data and activity-based costing, focusing on elements of the data reported by police authorities in the Police Performance Assessment Framework. The details of this work have not yet been determined, and we will update you further when this is agreed.
- 16 We expect this work to be funded separately by the Home Office and, therefore, it is not included in the fee contained in this plan.

Police reorganisation

- 17 Pending the outcome of current discussions about the reconfiguration of the police service, the Commission may require auditors of police authorities to carry out specific work to address the risks associated with restructuring and to support the transition process. We will update you further, including any fee implications, when this has been agreed.

Best value performance plan

- 18 We are required to consider and report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your best value performance plan (BVPP).

Initial Performance Assessment follow-up

- 19 In 2004, we reported the outcome of the Audit Commission's Initial Performance Assessment (IPA) of the GLA group, including the MPA. In 2006, we will develop the approach to inspection activity across the group, taking forward the findings of the IPA. Our approach will be:
- consistent with the local government approach (where appropriate);
 - proportionate; and
 - tailored to reflect the unique nature of the GLA group and any ongoing national developments (in particular, the use of resources' judgement).
- 20 We will engage with the Authority and the GLA group as we work to develop the approach via the Performance Improvement Network, which has representation from across the group.

Financial statements

- 21 We will carry out our audit of the 2006/07 financial statements and comply with the International Standards on Auditing UK and Ireland (ISA UKIs).
- 22 We are also required to review whether the Statement on Internal Control (SIC) has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with our knowledge of the MPA.
- 23 On the basis of our preliminary work to date, we have identified the following audit risks.

Table 2 Summary of opinion risks

Opinion risks	Response
<p>Local authorities are required to prepare their accounts in accordance with 'proper practices', defined (in practical terms) as compliance with the 2006 Statement of Recommended Practice (SORP). The draft SORP 2006 proposes some significant amendments to the existing SORP, including:</p> <ul style="list-style-type: none"> • changes to capital financing requirements; • replacing the Consolidated Revenue Account with a new income and expenditure account and a statement reconciling the surplus or deficit on the proposed new income and expenditure account with the surplus or deficit on the general fund; and • replacing the existing statement of Total Movements on Reserves with the statement required by FRS3, namely a Statement of Total Recognised Gains and Losses. 	<p>We will review SoRP disclosures in the statement of accounts.</p>
<p>New police pension arrangements will require the MPA to produce a pensions account, to appear as a new separate statement in the Statement of Accounts.</p>	<p>We will review the MPA's arrangements to meet the new accounting requirements for police pensions.</p>
<p>The accounting arrangements for fixed assets and capital financing remain in need of significant improvement.</p>	<p>We will review the accounting arrangements for fixed assets and capital financing.</p>

- 24 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be improved and that Internal Audit will complete its planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers.
- 25 We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statement audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
 - our documentation and initial testing of material systems;
 - our assessment of the closedown arrangements; and
 - any changes in financial reporting requirements.
- 26 When we have finalised our risk assessment in respect of your financial statements, we will issue a separate plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 27 The Government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with stakeholders. The fee for this work is not included in this plan and we will discuss this with the Treasurer when further details are available.

Other information

The team

Table 3

Name	Title
Mike Haworth-Maden	District Auditor and Relationship Manager
Neil Gray	Audit Manager
Richard Blakey	Support Audit Manager
Mark Evans	Audit Team Leader
Doug West	Performance Specialist

- 28** 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 and ethical standards.
- 29** We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Future audit plans

- 30** As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include the following.
- user focus;
 - emergency planning, and;
 - equalities and diversity.
- 31** We will discuss these in more detail as the audit year progresses.

Appendix 1 – Fees

Table 4 Fees

Fee estimate	Plan 2006/07 (£)	Plan 2005/06 (£)
Accounts	283,000	263,000
Use of resources (incorporating the IPA follow up)	242,000	253,000
Total fees	525,000	516,000
Grant claim certification	*-	26,000
Voluntary improvement work	-	-

**No longer required by the Home Office.*

- 1 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 2 The fee above includes all work contained in this plan except:
 - any work required in relation to the whole of government accounts (discussed in paragraph 27);
 - data quality audit work, as discussed in paragraph 15, which we expect to be funded by the Home Office; and
 - work carried specified in relation to police reorganisation, as discussed in paragraph 17. This work is yet to be specified and agreed.

Specific audit risk factors

- 3 In setting the audit fee, we have taken account of the following specific risk factors:
 - previous audit conclusions on accounting arrangements for fixed assets and capital financing;
 - the findings in the most recent annual report of the Director of Internal Audit which concluded that the overall level of internal control within the MPS is not yet at an acceptable standard; and
 - the threat to the MPA's hard-won financial stability presented by unplanned financial demands, eg Operation Theseus.

Assumptions

- 4 In setting the audit fee, we have assumed:
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing UK and Ireland;
 - officers will provide good quality working papers and records to support the financial statements by 30 June 2006;
 - officers will provide requested information within agreed timescales; and
 - officers will provide prompt responses to draft reports.
- 5 Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 6 Changes to the plan will be agreed with you. These may be required if:
 - new risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - there are any changes to financial reporting requirements, professional auditing standards, or legislation which results in additional audit work.

Specific actions the Metropolitan Police Authority could take to reduce its audit fees

- 7 The Audit Commission requires its auditors to inform an authority of specific actions it could take to reduce its audit fees. We have identified the following actions that the MPA could take:
 - the Financial Control Manager, Strategic Finance, should review and sign off all working papers supporting the financial statements to ensure that they tie in to the approved draft accounts, and clearly cross reference to supporting evidence;
 - facilitating an IT audit approach, based on the routine provision of a large volume of data from its financial systems to our auditors; and
 - further development of the Managed Audit agenda.

Process for agreeing any changes in audit fees

- 8 If we need to amend the audit fees during the course of this plan, we will firstly agree this with the Treasurer. We will then report to the Corporate Governance Committee.

Appendix 2 - Criteria to inform the auditor's conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives and for determining policy and making decisions

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body and for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

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- 8** The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9** The body has put in place arrangements to ensure that its spending matches its available resources.
- 10** The body has put in place arrangements for managing performance against budgets.
- 11** The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12** The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 3 - Planned outputs

- 1 Our reports will be discussed and agreed with the appropriate officers before being issued to the Corporate Governance Committee.

Table 5

Planned output	Start date	Draft due date	Key contact
Audit Plan*	February 2006	March 2006	Audit Manager
Interim Audit Memorandum	January 2007	April 2007	Audit Manager
Report on Financial Statements to those Charged with Governance	August 2007	September 2007	Audit Manager
Opinion on Financial Statements	June 2007	September 2007	Audit Manager
VFM Conclusion	April 2006	September 2007	Audit Manager
Final Accounts Memorandum	June 2007	October 2007	Audit Manager
Local Performance Work	TBA	TBA	Audit Manager
IPA Follow-up	TBA	TBA	Relationship Manager
Relationship Manager Letter	October 2007	November 2007	Relationship Manager

**To be revisited during the year to reflect outcome of 2005/06 opinion audit and 2006/07 interim visit.*

Appendix 4 - The Audit Commission's requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code), which includes the requirement to comply with ISA (UKI) when auditing the financial statements. The standards require 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. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The standards define '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 Committee. The auditor reserves the right, however, to communicate directly with the Authority on matters which are considered to be of sufficient importance.
- 3 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; and
 - resist any improper attempt to influence their judgement in the conduct of the audit.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.
- 5 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; and
- 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.