

Audit Plan

April 2007



# Audit Plan

**Metropolitan Police Authority**

**Audit 2007/2008**

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**

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 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.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Introduction</b>	<b>4</b>
Responsibilities	4
<b>Work under the Code of Audit Practice</b>	<b>5</b>
Financial statements	5
Use of resources - value for money conclusion	5
Use of resources – police use of resources evaluation	5
Initial Performance Assessment follow-up	6
<b>Assessing risks</b>	<b>8</b>
<b>Work specified by the Audit Commission</b>	<b>10</b>
Police data quality	10
Whole of government accounts (WGA)	10
National Fraud Initiative	10
<b>Voluntary improvement work</b>	<b>11</b>
<b>The audit fee</b>	<b>12</b>
<b>Other information</b>	<b>13</b>
The audit team	13
Independence and objectivity	13
Quality of service	13
Planned outputs	14
<b>Appendix 1 – Initial risk assessment – use of resources</b>	<b>15</b>
<b>Appendix 2 – Audit fee</b>	<b>17</b>
Specific audit risk factors	17
Assumptions	17
Specific actions the Metropolitan Police Authority could take to reduce its audit fees	18
Process for agreeing any changes in audit fees	18
<b>Appendix 3 – Independence and objectivity</b>	<b>19</b>

## Introduction

- 1 This plan sets out the work your audit team proposes to undertake in relation to the 2007/08 audit. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Responsibilities

- 3 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Metropolitan Police Authority (the MPA). The Audit Commission has issued a copy of the Statement to every audited body.
- 4 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our work is undertaken in the context of these responsibilities.
- 5 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 6 The Code defines auditors' responsibilities in relation to:
  - the financial statements (including the Statement on Internal Control [SIC]); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Work under the Code of Audit Practice

## Financial statements

- 7 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 8 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the MPA as at 31 March 2008 and its income and expenditure for the year.
- 9 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the MPA.

## Use of resources - value for money conclusion

- 10 The Code requires us to issue a conclusion on whether the MPA has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 11 In meeting this responsibility, we will review evidence that is relevant to the MPA's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example HMIC, we will normally place reliance on their reported results to inform our work.
- 12 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

## Use of resources – police use of resources evaluation

- 13 The Audit Commission has specified that auditors will complete a police use of resources evaluation (PURE) for 2007/08. PURE assesses how well the MPA manages and uses its financial resources. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the MPA's priorities and improve services.
- 14 The work required for the evaluation is fully aligned with that required to arrive at our value for money conclusion.

- 15 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

**Table 1 Key lines of enquiry**

Theme	Description
Financial reporting	<ul style="list-style-type: none"> <li>• Preparation of financial statements</li> <li>• External reporting</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>• Medium-term financial strategy</li> <li>• Budget monitoring</li> <li>• Asset management</li> </ul>
Financial standing	<ul style="list-style-type: none"> <li>• Managing spending within available resources</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>• Risk management</li> <li>• System of internal control</li> <li>• Probity and propriety</li> </ul>
Value for money	<ul style="list-style-type: none"> <li>• Achieving value for money</li> <li>• Managing and improving value for money</li> </ul>

- 16 We will report details of the scores and the judgements made to the MPA. The scores will be accompanied, where appropriate, by recommendations of what the MPA needs to do to improve its arrangements.
- 17 Our scores and judgements are reported to the Audit Commission and shared with HMIC.

## Initial Performance Assessment follow-up

- 18 In 2004, we reported the outcome of the Audit Commission's Initial Performance Assessment (IPA) of MPA and the other members of the GLA group. Subsequently, we have monitored progress against the key plans and actions undertaken to secure improvement. In 2006, we developed the approach to inspection activity, taking forward the findings of the IPA. Our approach was consistent with the local government approach (where appropriate), proportionate and tailored to reflect the unique nature of the MPA and the other members of the GLA group, as well as any ongoing national developments.

- 19 The agreed approach for the MPA in 2006 therefore comprised:
- a non-scored direction of travel (DoT) assessment, based on the 2006 local government Key Lines Of Enquiry (KLOEs) and tailored individually to the context of the MPA;
  - a scored use of resources (UoR) assessment in line with the national methodology, i.e. PURE; and
  - no changes to the overall IPA categories in 2006.
- 20 Subject to consultation, we propose to continue with this approach at the MPA in 2007, allowing for the further update of the tailored KLOEs.

## Assessing risks

- 21 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 22 Our risk assessment process starts with the identification of the significant financial and operational risks applying with reference to:
- our cumulative knowledge of the MPA and the Metropolitan Police Service (MPS);
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with officers from the MPA and MPS;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.
- 23 We have not included a detailed risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in April 2008. At this stage, we are aware of the following risks that are likely to impact on our audit of the financial statements.

---

**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 SORP 2006 proposes some significant amendments to the existing arrangements for 2007/08, including the following.</p> <ul style="list-style-type: none"> <li>• Replacing the Fixed Asset Restatement Account and Capital Financing Account with a Revaluation Reserve and a Capital Adjustment Account;</li> <li>• full implementation of FRS25, FRS26 and FRS29 which will change the treatment of accounting for financial instruments.</li> </ul>	<p>We will review SORP disclosures in the statement of accounts.</p>



Opinion risks	Response
<ul style="list-style-type: none"> <li data-bbox="247 315 901 387">• Potential amendments to PFI accounting treatment.</li> </ul>	
<p data-bbox="247 405 901 504">The accounting arrangements for fixed assets and capital financing continue to remain in need of significant improvement.</p>	<p data-bbox="949 405 1380 504">We will review the accounting arrangements for fixed assets and capital financing.</p>

- 24 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the MPA to mitigate the risk, and plan our work accordingly.
- 25 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

## Work specified by the Audit Commission

### Police data quality

- 26 The Audit Commission has specified that auditors should undertake risk-based work for 2007/08 on police data quality. The approach to reviewing police data quality has been developed by the Commission, working in partnership with the Home Office, and supports the Police Performance Assessment Framework.

### Whole of government accounts (WGA)

- 27 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

### National Fraud Initiative

- 28 The MPA participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the MPA's financial statements (in accordance with section 3(9) of the Audit Commission Act 1998).

## Voluntary improvement work

29 We are not proposing any voluntary improvement work at the MPA during 2007/08.

## The audit fee

- 30 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 31 The total indicative fee for the audit work included in this audit plan for 2007/08 is £510,000 which compares with the planned fee of £529,700 for 2006/07.
- 32 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions the MPA could take to reduce its audit fees; and the process for agreeing any changes to the fee. The audit fee includes all work identified in this plan unless specifically excluded.
- 33 As indicated in paragraphs 2 and 23, the audit planning process will continue as the year progresses and it is possible that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 31 above. Any changes to the fee will be agreed with you.

## Other information

### The audit team

- 34 The key members of the audit team for the 2007/08 audit are shown in the table below.

**Table 3 Audit team**

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

### Independence and objectivity

- 35 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 36 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

### Quality of service

- 37 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor in the first instance. Alternatively you may wish to contact the London Head of Operations, Les Kidner. Les can be contacted via our Millbank office.
- 38 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

## Planned outputs

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

**Table 4**

<b>Planned output</b>	<b>Indicative date</b>
Audit Plan	March 2007
Opinion Audit Plan	April 2008
Police Data Quality Report	April 2008
Interim Audit Memorandum	April 2008
Annual Governance Report	September 2008
Opinion on The Financial Statements And Value for Money Conclusion	September 2008
WGA Audit Report	October 2008
Final Accounts Memorandum	November 2008
PURE Report	November 2008
Annual Audit Letter	December 2008

## Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>The MPA spends nearly £600m each year in procuring goods and services. Achieving the efficiency savings available may be jeopardised by ineffective procurement practices.</p>	<p>The MPA and MPS are developing a new approach to corporate procurement, supported by revised procurement regulations.</p>	<p>Yes</p>	<p>Review corporate procurement arrangements</p>	<p>VFM conclusion, via PURE KLOE 5.2 - The MPA manages and improves value for money.</p>
<p>The MPA has a Medium Term Financial Strategy (MTFS) in place which is linked to its corporate objectives. Further work is required to ensure that the MTFS is linked to the business planning processes so that MPA/MPS business planning drives the MTFS and resource allocations.</p>	<p>Further action is being taken to develop the links between business planning and resource allocation. Additionally, a major productivity strategy is being implemented, under the Deputy Commissioner's leadership.</p>	<p>Yes</p>	<p>Review service and financial planning</p>	<p>VFM conclusion, via PURE KLOE 2.1 - The MPA's medium term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>

<b>Significant risks identified</b>	<b>Mitigating action by audited body</b>	<b>Residual audit risk</b>	<b>Action in response to residual audit risk</b>	<b>Link to auditor's responsibilities</b>
<p>The 2005/06 value for money conclusion was qualified because the MPA has yet to establish adequate arrangements for internal control. The assurance framework that supports the SIC is also yet to be fully embedded into the MPS' business processes.</p>	<p>Action is being taken by the MPA and MPS to improve internal control.</p>	<p>Yes</p>	<p>Review of internal control arrangements, including the SIC.</p>	<p>VFM conclusion, via PURE KLOE 4.2 - The authority and force have arrangements in place to maintain a sound system of internal control.</p>
<p>Further work is needed to embed risk management into the strategic and performance management arrangements of the MPA and MPS.</p>	<p>Risk management arrangements continue to be developed.</p>	<p>Yes</p>	<p>Review risk management arrangements, placing appropriate reliance on the work of internal audit.</p>	<p>VFM conclusion, via KLOE 4.1 - The MPA and MPS manage their significant business risks.</p>
<p>Despite significant performance improvements the MPS has yet to demonstrate fully a cohesive performance management framework that clearly sets out performance accountabilities, systems and processes across the organisation.</p>	<p>Work is underway to develop an embedded performance management framework, linking corporate priorities through business group plans to the individual.</p>	<p>Yes</p>	<p>Review performance management arrangements, in partnership with HMIC</p>	<p>VFM conclusion.</p>



## Appendix 2 – Audit fee

- 1 Table 5 provides details of the planned audit fee for 2007/08 with a comparison to the planned fee for 2006/07.

**Table 5**

<b>Audit area</b>	<b>Planned fee 2007/08</b>	<b>Planned fee 2006/07</b>
	<b>£</b>	<b>£</b>
<b>Fee estimate</b>		
Accounts (including WGA)	291,000	287,700
Use of resources (incorporating the IPA follow up)	219,000	242,000
<b>Total fees</b>	<b>510,000</b>	<b>529,700</b>
Grant claim certification	-	-
Voluntary improvement work	-	-

- 2 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

### Specific audit risk factors

- 3 In setting the audit fee, we have taken into account a number of specific risk factors:
- opinion risks (see Table 2), and;
  - use of resources risks (see Appendix 1).

### Assumptions

- 4 In setting the fee, we have assumed that:
- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
  - 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 systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by the start of the audit;
  - requested information will be provided within agreed timescales; and
  - prompt responses will be provided to draft reports.
- 5 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 6 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

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

- 7 The Audit Commission requires its auditors to inform a police authority of specific actions it could take to reduce its audit fees. We have identified the following actions the MPA could take:
- improve fixed asset accounting arrangements;
  - enhance the arrangements for quality assuring the draft financial statements; and
  - address required improvements in systems of internal control.

## **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 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard 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 Corporate Governance Committee. The auditor reserves the right, however, to communicate directly with the MPA on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.