

# Annual Governance Report

Metropolitan Police Authority

Audit 2007/08

September 2008

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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.

# Summary

### Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is nearing completion. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

### Financial statements

- 3 Our work on the financial statements is in progress and we expect to issue an audit opinion by 30 September 2008 subject to approval by the Authority. A draft auditor's report is attached at Appendix 1.
- 4 The overall conclusions, based on the work we have completed to date, are that:
  - the main financial statements, as amended, present fairly the financial transactions of the Authority; and
  - the pension fund financial statements present fairly the financial transactions of the pension fund.
- 5 Audit work is ongoing in several areas, in particular, prepayments, provisions, contingent liabilities, capital reserves, covert accounts and financial instruments. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the MPA Treasurer, MPS Director of Resources and Chair of the Corporate Governance Committee.
- 6 We have agreed several amendments to the draft statement of accounts with management. These are set out below and in more detail in Appendix 3.

### Value for Money

- 7 We are satisfied that the Authority, having regard to the criteria specified by the Audit Commission in all significant respects, made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008 and hence we will issue an unqualified value for money conclusion (a draft of which is included at Appendix 1). This represents an improvement on 2006/07 when the value for money conclusion was qualified due to weaknesses in the Authority's arrangements for maintaining internal control.

### Next steps

- 8 We ask the Corporate Governance Committee to:
  - consider the matters raised in the report before approving the financial statements;
  - agree to adjust the financial statements in respect of the errors set out below;

- approve the management representation letter on behalf of the Authority before we issue our opinion, conclusion and certificate; and
- agree the proposed action plan, attached at Appendix 4.

# Financial statements and Annual Governance Statement

- 9 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 10 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 11 In addition, auditing standards require us to report to you:
  - the draft representation letter which we are asking management and you to sign;
  - our views about the Authority's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

## Key areas of judgement and audit risk

- 12 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
<p>The Statement of Recommended Practice (SORP) proposed some significant amendments to the existing arrangements for 2007/08, including:</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>	<ul style="list-style-type: none"> <li>• Audit testing of the Revaluation Reserve and Capital Adjustments Account found opening balances to be fairly stated and the entries made to and from these accounts in year were in accordance with SORP requirements.</li> <li>• As explained within the foreword to the accounts, the Authority's initial view was that a disclosure in respect of financial instruments would not be required, and hence one was not prepared for the draft accounts approved by members. Following discussions officers have agreed that a disclosure is required. A disclosure was recently prepared and is currently subject to audit.</li> </ul>
<p>The working papers and audit trails to support fixed assets were weak last year and improvements were required.</p>	<p>There has been a notable improvement in the presentation of fixed assets this year with only a small number of minor errors in fixed asset balances identified by audit testing. We will work with officers to further improve fixed asset audit trails in 2008/09, particularly as the Authority prepares for the implementation of International Financial Reporting Standards.</p>

**Recommendation**

**R1** Ensure all changes to financial reporting requirements are prepared in accordance with the SORP and included in the draft accounts approved by the Authority.

### Draft representation letter

- 13** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
  - you have approved the financial statements;
  - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
  - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
  - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
  - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
  - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
  - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
  - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
  - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
  - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 14** We need specific representations from you about your accounting for covert activity and bank accounts as we are unable to obtain complete assurance from the audit procedures we have conducted.
- 15** Appendix 2 contains the draft of the letter of representation we seek from you.

### Accounting policies and financial reporting

- 16 We considered the qualitative aspects of your accounting policies and financial reporting and identified one significant issue to raise with you.

#### Long-term debtors

- 17 The statements include long-term debtors of £10.5 million. The debtors relate to amounts due from the Inner London Probation Service (ILPS) and the Greater London Magistrates' Court Authority (GLMCA) in respect of loans taken out on their behalf and transferred to the Authority on its inception in 2000. Legislation was enacted in 1999 to ensure these amounts were liable to be repaid to the Authority, however, the bodies concerned have since been abolished and the Authority has not received payments in respect of these debts since 2000 (ILPS) and 2006 (GLMCA) respectively.
- 18 We are aware that the Authority is engaged in correspondence with the Home Office about these sums due and holds the view that the sums remain fully collectible. Given the elapsed time it would be prudent to review the status of these debts and determine whether a bad debt provision or write-off is warranted during the next financial year.

#### Recommendation

- R2 The Authority should review the status of long term debtors in 2008/09 and be prepared to make prudent provisions for sums which may be uncollectible.

### Errors in the financial statements

- 19 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management. The significant errors we wish to make you aware of are set out below. These issues are also summarised with amending accounting entries at Appendix 3.

#### Capital reserves

- 20 The balance sheet includes sums accounted for as Capital Grant Reserves (£30.4 million) and Earmarked Capital Reserves (£9.9 million). Following a clarification of existing accounting guidance, such sums should be treated as reserves only if they are not matched to commitments or existing assets, in which case they should be classified as liabilities. Following a review of such reserves officers agreed to re-classify £6.4 million of Capital Grant Reserves and £4.9 million of Earmarked Capital Reserves as liabilities. Whilst there is no impact on the Income and Expenditure Account or General Fund balance, the Authority's net worth, as measured by net assets on the balance sheet, is reduced by £11.3 million as a result of this reclassification.



## Financial statements and Annual Governance Statement

### Deferred government grants

- 21 Amortisation of deferred government grants totalling £18.9 million was not accounted for in the Income and Expenditure Account as required by the SORP. Officers agreed to amend the accounts to ensure compliance with the SORP. Whilst there is no impact on the General Fund balance, income in the Income and Expenditure Account is understated by £18.9m.

### Deferred charges

- 22 Deferred charges of £2.5m were written off directly to the Capital Adjustments Account in year and were not taken through the Income and Expenditure Account as required by the SORP. The accounts were amended in this respect. Whilst there is no impact on the General Fund balance, expenditure in the Income and Expenditure Account is understated by £2.5m.

### The audit report

- 23 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of our draft report.

### Material weaknesses in internal control

- 24 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements.

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**Table 2 Weaknesses in internal control**

Issue or risk	Finding
Major financial systems reconciliations were not performed regularly in 2006/07.	Matter addressed - the reconciliations of all major financial systems were performed satisfactorily in 2007/08.

- 
- 25 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

### Other matters

- 26 There are no other matters that auditing standards require me to report to you.

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# Value for money

- 27** We are required to conclude whether the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion. We assess your arrangements against criteria specified by the Commission and draw on our work on the Police Use of Resources evaluation (PURE), a scored judgement which the Audit Commission will report in October 2008, as well as specific reviews of other areas of risk.
- 28** We are satisfied that, having regard to the criteria for police authorities specified by the Audit Commission, in all significant respects, the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008. The more important matters arising are drawn to your attention in the paragraphs below.

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## Internal control

- 29** Last year we qualified the value for money conclusion in respect of internal control due to:
- a failure to maintain prompt and regular controls over key financial accounting processes, such as the bank reconciliation, and reconciling feeder systems to the main ledger; and
  - compliance failures with regard to the procurement of estates associated with the Safer Neighbourhoods initiative.
- 30** This year has seen an improvement in the management of the main financial systems and the weaknesses in estates procurement addressed. We also note that there have been significant developments during 2007/08 aimed at strengthening governance arrangements, for example, revised Standing Orders and contract regulations, and more improvements are planned.
- 31** However, the Authority and Service still faces a significant challenge to embed a stronger culture of compliance. A number of issues exemplify this, and are summarised in the table below. We have taken a proportionate view of these matters in terms of their impact on the overall value for money conclusion, and have not qualified accordingly. Nevertheless, they are brought to members' attention, and we will be monitoring progress over the coming year to assess to what extent overall arrangements are strengthened and lessons learned.

**Table 3 Compliance: Summary of issues**

Improving compliance must remain a key target for the Authority

Issue	Detail
Credit card investigation	<p>The investigation into the possible fraudulent use of credit cards by officers continues. Good progress has been made since October 2007 with around £2.0 million of the original £3.7 million expenditure now reconciled. The main focus now is on pre-2006 expenditure, where the investigation of targeted accounts amounting to £1.0 million is well advanced.</p> <p>A new contract has been let with Barclaycard and the controls for authorising and controlling credit card activity tightened with a reduction of credit cards in use from 3,533 to 1,842. The evidence is that those with newly issued Barclaycards are adhering to the new control arrangements. The improvements to the control environment which have resulted from this investigation must be embedded to prevent a recurrence.</p>
Tendering of HR Transformation Contract	<p>The Monitoring Officer issued a report following a technical breach of contracting law during the letting of the HR Transformation Contract. The Monitoring Officer and external solicitors concluded that the situation did not arise as a result of incompetence or oversight in the procurement process and the matter was reported clearly to members. No claims from third parties were received. While not symptomatic of a general lack of arrangements to ensure compliance with relevant laws and regulations in procurement, the lessons from this instance must be distilled and incorporated in future practice.</p>
Internal audit assessment	<p>Internal audit report marginal improvements year on year in the outcomes from their work for 2007/08. However, they note, for example, consistent weaknesses in the extent to which basic controls are observed in borough command units.</p>

**Recommendation**

**R3** Members should monitor the progress made to address significant issues of non-compliance and any others which may arise.

## Financial Standing

32 The Authority improved its financial position in 2007/08 as is demonstrated by the major funds shown in the table below.

**Table 4 Summary of major balances as at 31 March 2008**

	As at 31 March 2008 £ million	As at 31 March 2007 £ million
<b>General Fund</b>	46.8	38.9
<b>Earmarked Reserves:</b>		
- Operational	47.2	10.9
- Property	34.1	21.7
- Modernisation	16.1	0
- Emergencies Contingency	23.1	20.1
- others	72.4	62.7
<b>Total Earmarked Reserves</b>	192.9	115.4

- 33 The strong financial results are underpinned by an underspend of £42.5 million, chiefly due to operating below budgeted establishment and a more favourable grants position of around £44 million. There have been overspends deriving from the costs of Operations Seagrove and Harwood, as well as some attributable to additional costs in transport and supplies and services.
- 34 Reserves are being maintained in accordance with the Authority's policy, and the aggregate General Fund and Emergencies Contingency position of £69.9 million represents around 2.9% of the 2008/09 budget requirement net of special grants. Members have approved additional earmarked reserves amounting to nearly £170 million for a range of projects that are linked to corporate objectives and service priorities.
- 35 The immediate financial future poses considerable uncertainties for the Authority and a range of scenarios requiring ambitious efficiency savings are being considered. Given the potential threats to future financial standing, members should continue to receive clear financial reports and the level of reserves must be reviewed regularly to ensure it remains at an appropriate level.

### Recommendation

**R4** Members should continue to keep the Authority's medium-term financial scenario and the level of reserves under review.

Other performance work

36 The main messages from performance audits completed in 2007/08 are summarised in the table below. This work informs our value for money conclusion and has been the subject of separate detailed reports containing agreed action plans.

**Table 5 Other performance work**

Audit	Main issues arising
<b>Partnerships</b>	<p>We concluded that the approach to partnership working and community engagement is developing well .The main recommendations were to:</p> <ul style="list-style-type: none"> <li>● develop mechanisms to share learning and good practice alongside a comprehensive partnership policy and associated standard operating procedures;</li> <li>● improve the measurement of outcomes of community engagement at neighbourhood level and the impact of decisions made with local communities;</li> <li>● strengthen governance arrangements for community engagement by establishing terms of reference, codes of conduct and guidance to assist Community Police Engagement Groups and Safer Neighbourhood ward panels in their work; and</li> <li>● develop shared risk management arrangements with all local authority partners where this is not currently in place.</li> </ul>
<b>Police overtime</b>	<p>We concluded that arrangements for managing and controlling overtime were continuing to improve across the MPS, aided by senior management's commitment to improve financial management. We identified a number of areas of good practice within command units which, if applied as standard across the Service, have the potential to deliver efficiencies.</p> <p>We made several recommendations, including the need for:</p> <ul style="list-style-type: none"> <li>● a consistent and robust management regime over the use and cost of overtime;</li> <li>● ensuring compliance with current policies across all business groups;</li> <li>● support for officers and managers in developing financial management skills;</li> <li>● better evaluation of the use of overtime and assessment</li> </ul>

Audit	Main issues arising
	<p>of the benefits delivered;</p> <ul style="list-style-type: none"> <li>● improved budgeting and monitoring of overtime budgets for major operations, which is in place in some parts of the organisation, but not embedded universally across the MPS; and</li> <li>● monitoring of instances where exceptional levels of overtime hours are worked, including drawing out the implications to assist workforce planning.</li> </ul>
<b>C3i</b>	<p>The C3i programme has been a major priority and one of the largest organisational changes the MPS has undertaken. The programme has been phased in over a number of years and was completed in 2007. The project cost over £280 million.</p> <p>Our conclusion is that the implementation of the C3i Programme has been well managed and delivered on time and within budget.</p> <p>We made a number of recommendations, including:</p> <ul style="list-style-type: none"> <li>● MPA link members to engage with BOCUs to scrutinise the effectiveness of local call handling, a matter which the MPA are currently considering;</li> <li>● the costs of providing the Integrated Borough Operations should be included in post-implementation assessments of overall business benefits and value for money achieved by the new programme; and</li> <li>● the MPS should continue to provide intervention and support to BOCUs and the Central Communications Command Centres beyond the C3i Programme closure.</li> </ul>

# Formal audit powers

37 We have:

- a power to issue a public interest report where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Authority's accounts is contrary to law;
- a power to issue an advisory notice which requires the Authority to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure; or
  - taking an unlawful course of action that would give rise to a loss; or
  - making an unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Authority.

38 We have not and do not propose to exercise these powers.

# Independence

- 39 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 40 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 41 We communicate to you:
- any relationships between us and the Authority, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Authority

- 42 We have identified no relationships that might affect objectivity and our independence.

## Audit fees

- 43 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the projected outturn fee against that plan.

**Table 6      Audit fees**

	<b>Plan 2007/08</b> <b>(£)</b>	<b>Actual 2007/08</b> <b>(£)*</b>
Financial statements and Annual Governance Statement	291,000	291,000
Value for Money	219,000	219,000
Total Audit Fees	510,000	510,000

\*Projected

- 44 The audit has been contained within the fees set in our original audit plan.
- 45 Under the Audit Commission's advice and assistance power it may provide non-audit services to the Metropolitan Police Authority. At the Authority's request we are discussing the provision of a programme of workshops designed to raise anti-fraud awareness across the Authority and Service. These are planned to be delivered within the period November 2008 to January 2009, with an expected cost of £50,000.



## Independence

### Our arrangements to ensure independence and objectivity

46 We have comprehensive procedures to ensure independence and objectivity. These are outlined in the table below.

**Table 7 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"><li>• do not hold a financial interest in any of our audit clients;</li><li>• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li><li>• may not enter into business relationships with UK audit clients or their affiliates.</li></ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"><li>• the general requirement to carry out work independently and objectively;</li><li>• safeguarding against potential conflicts of interest;</li><li>• acceptance of additional (non-audit) work;</li><li>• rotation of key staff;</li><li>• other links with audited bodies;</li><li>• secondments;</li><li>• membership of audited bodies;</li><li>• employment by audited bodies;</li><li>• political activity; and</li><li>• gifts and hospitality.</li></ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

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# Appendix 1 – Proposed Auditor's Report

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## Independent auditor's report to the Members of the Metropolitan Police Authority

### Opinion on the financial statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of the Metropolitan Police Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, 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. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Metropolitan Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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### Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes 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 Authority and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

## Appendix 1 – Proposed Auditor's Report

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

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### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the police pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the police pension fund accounting statements and related notes.

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### Opinion

In my opinion:

- the accounting statements and related notes 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 Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

- the police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the police pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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### Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

#### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in December 2006. I am satisfied that, in all significant respects, the Metropolitan Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

## Appendix 1 – Proposed Auditor's Report

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

L.J. Kidner  
District Auditor  
Audit Commission  
1st Floor, Millbank Tower  
Millbank  
London SW1P 4HQ

September 2008

# Appendix 2 – Management Representation Letter

To: L.J. Kidner  
District Auditor  
Audit Commission  
1st Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ

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## **Metropolitan Police Authority**

## **Metropolitan Police Authority Pension Fund**

### **Audits for the year ended 31 March 2008**

We acknowledge our collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework.

We have approved the financial statements.

We acknowledge our responsibility for the design and implementation of internal controls to prevent and detect fraud and error.

We have informed you of the results of our assessment of the risk that the financial statements might be materially misstated because of fraud.

We have informed you of all instances of actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements).

We have informed you of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.

We have informed you of all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

We have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate.

## Appendix 2 – Management Representation Letter

We are satisfied that the individual or collective impact of errors we have identified, but that have not been corrected, is not material.

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Since the date of approval of the financial statements by the Corporate Governance Committee on 12 June 2008 and the full Authority on 26 June 2008, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

### 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.

**Signed on behalf of the Metropolitan Police Authority**

Signed .....

Name .....

Position: Treasurer

Date .....

Signed .....

Name .....

Position: Chief Executive

Date .....

Signed .....

Name .....

Position: Chair of the Corporate Governance Committee

Date .....

Signed .....



## Appendix 3 – Summary of adjusted mis-statements

Item	Description	I&E impact		SMGFB impact		BS impact	
		dr £000s	cr £000s	dr £000s	cr £000s	dr £000s	cr £000s
Earmarked capital reserve and capital grant reserve	The balance sheet includes sums accounted for as Capital Grant Reserves (£30,422k) and Earmarked Capital Reserves (£9,913k). Following a review of such reserves officers agreed to re-classify £6,403k of Capital Grant Reserves and £4,913k of Earmarked Capital Reserves as liabilities. Whilst there is no impact on the Income and Expenditure Account or General Fund balance, the Authority's net worth, as measured by net assets on the balance sheet, is reduced by £11,316k.					11,316	11,316
Deferred government grants	Amortisation of deferred government grants totalling £18,902k was not accounted for in the I&E Account as required by the SORP. Whilst there is no impact on the General Fund balance, income in the I&E Account is understated by £18,902k.		18,902	18,902			

### Appendix 3 – Summary of adjusted mis-statements

Item	Description	I&E impact		SMGFB impact		BS impact	
		dr £000s	cr £000s	dr £000s	cr £000s	dr £000s	cr £000s
Deferred charges	Deferred charges of £2,548k were written off directly to the Capital Adjustments Account in year and were not taken through the I&E Account as required by the SORP. Whilst there is no impact on the General Fund balance, expenditure in the I&E Account is understated by £2,548k.	2,548					2,548

# Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Ensure all changes to financial reporting requirements are prepared in accordance with the SORP and included in the draft accounts approved by the Authority.					
8	R2 The Authority should review the status of long term debtors in 2008/09 and be prepared to make prudent provisions for sums which may be uncollectible.					
11	R3 Members should continue to monitor the progress made to address significant issues of non-compliance and any others which may arise.					
12	R4 Members should continue to keep the Authority's medium-term financial scenario and the level of reserves under review.					