

Annual Audit Letter

Metropolitan Police Authority
Audit 2007/08
November 2008



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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 directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Key messages

- 1** We issued an unqualified opinion on the Metropolitan Police Authority's (MPA) 2007/08 accounts and those of its pension fund on 29 September 2008. Arrangements to support the production of the accounts continue to improve and were of a good standard this year.
- 2** We issued an unqualified value for money conclusion on 29 September 2008, concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- 3** We continue to assess the Authority's use of resources overall as achieving adequate performance. Our view is that the underlying direction of travel is positive and arrangements are developing and are generally stronger than a year ago. For the first time, no sub-theme was assessed as below minimum requirements. However, whilst improvements are being made, more is needed to properly embed governance arrangements that are fit for purpose across the MPA and the Metropolitan Police Service (MPS).
- 4** Notable achievements during the year include a continued reduction in crime, the implementation of Safer Neighbourhood teams and the development and rolling out of the joint community engagement strategy. Performance management is an improving area with a robust set of corporate health indicators developed during the year. The Authority recognises a need for a sharper focus on the outcomes being achieved from policing activities and the impact policing is having on public perceptions, and is working to achieve this. While crime data quality met the minimum standards, little improvement was evident during 2007/08, a situation which the MPS is currently addressing.
- 5** The financial position at 31 March 2008 was strong, and since then the necessity of maintaining a prudent reserves position has been underlined by the Authority's exposure to the instability in the banking sector, with £30 million at risk with an Icelandic bank. This matter, set alongside the considerable challenges of delivering savings against a demanding efficiency agenda, the uncertainties in police grant funding levels and the financial implications of preparing for the Olympic Games, emphasises the continuing need to keep the medium term financial and reserves positions under ongoing review.

Recommendations

- 6** The key recommendations resulting from our work during 2007/08 are as follows:
- keep the Authority's financial position and the strength of reserves under review, particularly with regard to present and future financial risks;
 - improve the system of internal control and compliance with financial regulations, both centrally and throughout the MPS;
 - integrate business and financial planning, including the embedding of risk management in planning processes, and use this to drive the medium term financial plan;
 - further integrate cost and performance data and use this to drive budget setting and monitoring processes; and
 - continue to improve arrangements for securing value for money, in particular by understanding the impact of external factors on costs and the difference between the MPS's costs and those of other large forces.
- 7** More detail on each recommendation is provided in the subsequent sections of the Letter.

Purpose, responsibilities and scope

- 8 The Metropolitan Police Authority (MPA) was created by the Greater London Authority Act 1999. It holds the Metropolitan Police Service (MPS) accountable through the scrutiny and challenge of its operational performance, including its use of resources.
- 9 This Letter provides an overall summary of the Audit Commission's assessment of the Authority, based on audit work performed in relation to the accounting period ending 31 March 2008. Where relevant this work has included assessment of the arrangements in place in the MPS.
- 10 We have addressed this Letter to Members as it is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Authority in meeting its responsibilities.
- 11 This Letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this Letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Authority will publish it on its website.
- 12 We have prepared this Letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.
- 13 As your appointed auditors we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Authority's accounts;
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - how well the Authority has managed its resources - the Police Use of Resources Evaluation (PURE).
- 14 We have listed the reports issued to the Authority relating to the 2007/08 audit at the end of this Letter.

Audit of the accounts

- 15** The overall conclusions of our audit of the Authority's accounts for the year ended 31 March 2008 are that:
- the main accounts presented fairly the financial transactions of the Authority;
 - the pension fund accounts presented fairly the financial transactions of the pension fund; and
 - the Annual Governance Statement was prepared in accordance with proper practice as specified by CIPFA and was consistent with the findings from our audit.
- 16** Our findings were presented in our Annual Governance Report to the Corporate Governance Committee on 11 September 2008 and we issued unqualified opinions on the accounts and those of the pension fund on 29 September 2008. We certified completion of the audit for 2007/08 on the same date. On 30 September 2008, we certified that the Authority's accounts' submission for the national 'whole of government accounts' consolidation was consistent with the audited accounts.
- 17** The processes by which the MPA/S prepare the draft accounts for audit continue to improve, and the 2007/08 accounts audit was conducted smoothly. A number of amendments were made to the financial statements, but none of these affected the overall financial position of the Authority. The more significant amendments were reported to the Corporate Governance Committee in September 2008. A detailed audit report with recommendations for further improvements is being discussed with officers.
- 18** Improvements made to the quality of the accounts and supporting records should be sustained and built upon in 2008/09, not least to facilitate the adoption of International Financial Reporting Standards (IFRS) from 2010/11, to which the MPA/S are currently working. We will continue to work with officers as a detailed timetable for implementation is developed.

Use of resources

19 We are required to:

- conclude whether the Authority 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; and
- assess how well the Authority and MPS manage and use financial resources by providing scored judgements on the arrangements on five specific themes. This is known as the Police Use of Resources Evaluation (PURE).

Value for money conclusion

20 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 and hence we issued an unqualified value for money conclusion for the year ended 31 March 2008. 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.

21 This year has seen an improvement in the management of key financial systems, with, in particular, regular reconciliations of bank accounts and payroll performed, and the arrangements for estates procurement were improved. 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.

Police Use of Resources scores

22 This is the third year that we have carried out an assessment of the core areas of financial governance within the MPA and MPS as part of our national PURE approach. To reflect the Audit Commission's objective of continuous improvement, the criteria for PURE are raised gradually each year.

23 The PURE score is derived from audit reviews of five themes based on the arrangements in place at 31 March 2008. The themes are:

- financial reporting (including the preparation of the Authority's accounts and the way these are presented to the public);
- financial management (including how financial management is integrated with strategy to support the MPA/S's priorities);
- financial standing (including the strength of the Authority's financial position);
- internal control (including how effectively the Authority maintains proper stewardship and control of its finances); and
- value for money (including an assessment of how well the MPA/S balance the costs and quality of services).

24 Each theme was scored on the following basis.

Table 1 Description of the scores reached

Score/level	Description
1	Below minimum requirements – inadequate performance.
2	Only at minimum requirements – adequate performance.
3	Consistently above minimum requirements – performing well.
4	Well above minimum requirements – performing strongly.

25 This year the PURE audit was conducted between April and September 2008 and was integrated with an inspection carried out by HMIC on the MPA/S's arrangements for strategic resource leverage. A report on PURE was agreed with officers who are preparing a response to the action plan. The HMIC report should be seen as complementary to PURE, and also contains recommendations designed to help the MPA/S improve its arrangements for securing value for money.

Main findings

- 26 Overall, the MPA/S were assessed as achieving adequate performance (level 2) in the police use of resources assessment for 2007/08. The scores for all five themes have been assessed as the same as in 2006/07, but our view is that the underlying direction of travel is positive and arrangements are generally stronger than a year ago. For example, for the first time, no sub-theme was assessed as below minimum requirements.
- 27 The Authority's financial standing and arrangements for financial reporting remain at level 3, indicating they are performing well.
- 28 For the financial management, internal control and value for money elements of PURE, the Authority's performance remains at level 2. It is clear that much work is being undertaken to strengthen arrangements within these themes, for example, business and financial planning, risk management and procurement. The new and revised procedures need to be embedded and delivering clear outcomes in order for a higher assessment to be achieved. This will inevitably take time and resources to achieve in such a large organisation as the MPA/MPS but should remain a key priority.

Use of resources

29 Our theme scores and key actions for the Authority are set out in Table 2 below.

Table 2 Police Use of Resources scores

Theme	Score 2008	Score 2007	Key issues for Authority attention
Financial reporting	3	3	
Financial management	2	2	<p>R1 Integrate business and financial planning, including the embedding of risk management in planning processes, and use this to drive the medium-term financial plan.</p> <p>R2 Further integrate cost and performance data and use this to drive budget-setting and monitoring processes.</p>
Financial standing	3	3	
Internal control	2	2	<p>R3 Improve the system of internal control and compliance with financial regulations, both centrally and throughout the MPS.</p>
Value for money	2	2	<p>R4 Continue to improve arrangements for securing value for money, in particular by understanding the impact of external factors on costs and the difference between the MPS's costs and those of similar forces.</p>
Overall assessment of the Audit Commission	2	2	

(Note: 1 = lowest, 4 = highest)

Financial position and outlook

2007/08 performance

- 30** The Authority continued to improve its financial position in 2007/08. Strong financial results were achieved, including a budgetary underspend of £42 million, chiefly due to operating below establishment and attracting an additional £44 million in grants after the original budget was approved. Following approved transfers to earmarked reserves, the underspend on the general account was £7.9 million.
- 31** Reserves were maintained in accordance with the Authority's policy, and the aggregate General Fund and Emergencies Contingency position of £70 million represents around 2.9 per cent of the 2008/09 budget requirement net of special grants. Overall, Members approved a number of reserves amounting to nearly £170 million for a range of projects that are linked to corporate objectives and service priorities.

2008/09 performance

- 32** Based on financial reports provided to Members during November, the overall position remains sound, with an underspend on revenue budgets of £22 million projected. At the end of the first quarter, the MPA/S reported it was on target to deliver planned cashable efficiency savings of £144 million for the year, compared with £123 million achieved in 2007/08.
- 33** Whilst the MPA/S's overall performance remains strong, the environment in which the MPA/S manages its finances has become more complex. Significant revenue cost pressures, including police overtime, pay awards and fuel costs, will require rigorous monitoring to ensure they do not adversely affect the achievement of financial targets. Uncertainty also remains over the Authority's deposits with Icelandic bank Landsbanki totalling £30 million.
- 34** The volatility of financial markets has had an adverse impact on the 2008/09 capital programme with significantly reduced levels of capital receipts available to finance the programme than originally budgeted. In addition, an opportunity to purchase the freehold of a key asset has arisen with further significant funding implications. Careful scrutiny will be required to ensure future capital programmes are affordable and sustainable.

Use of resources

2009/10 and beyond

- 35** Looking further forward, the Authority continues to plan in an uncertain financial environment, informed by a number of strategic risks with significant financial implications, including:
- the increased emphasis placed on the achievement of cashable efficiency savings by the Home Office's Efficiency and Productivity Strategy 2008 to 2011;
 - ongoing uncertainties in police grant funding levels;
 - policing the continuing threat of terrorism in London;
 - preparing for the security and policing implications of the 2012 Olympics; and
 - meeting the developing sustainability agenda.
- 36** Given the potential threats to future financial standing, Members should continue to receive clear financial reports and scrutinise financial performance carefully. The level of reserves must be reviewed regularly to ensure it remains at an appropriate level to manage future financial risks.

Recommendation

- R5** Keep the Authority's financial position and the strength of reserves under review, particularly with regard to present and future financial risks.

Other use of resources work

- 37** Our programme of work included the following reviews.
- Partnerships.
 - Implementation of CCC.
 - Police overtime.
- 38** The outcomes from these reviews were largely satisfactory and were summarised in our Annual Governance Report issued in September and used to support the value for money conclusion for the year ended 31 March 2008. Detailed reports containing action plans have been discussed and agreed with officers, and we will be reviewing progress against actions in subsequent audits.

Police data quality

- 39** In 2007 crime and incident data quality met Home Office standards and was assessed as fair in comparison with other forces. Subsequently, the Authority undertook a comprehensive scrutiny of MPS crime data recording, reporting with recommendations in February 2008.

- 40** In May 2008 we followed up our earlier work and noted a marginal improvement in some aspects of crime recording decision making, but variations in performance remained across the Service, and a significant and sustained improvement in data quality had yet to be achieved. This report is currently being discussed with officers.
- 41** It is clear that the MPS regards data quality as a strategic priority and has responded positively to the Authority's recommendations, and also those made by the Audit Commission. Governance arrangements for data quality were revised in May 2008 and a programme of National Crime Recording Standard audits instituted. Early findings indicate an improving trend but this remains an area which the MPS must keep under review. We will re-assess the position in early 2009.

Performance assessment of the MPA: Direction of Travel

- 42** We have undertaken an annual follow up of the Authority's progress against the findings of its Initial Performance Assessment (IPA) first reported in 2004. As in previous years we based our approach on the 'Direction of Travel' assessment for local government, but tailored individually to the Authority's context.
- 43** The Authority has overseen some notable achievements in the performance of the MPS in the past year. These include a reduction in crime, with recorded offences falling to the lowest annual levels since 1998/99; the implementation of neighbourhood policing across London; and the establishment of 21 Safer Transport teams. However there are a number of areas requiring further improvement, including customer satisfaction levels and the protection of vulnerable people.
- 44** There has been continued progress by the Authority in addressing the findings of the IPA report, for example:
- corporate leadership and capacity has been enhanced with new senior management appointments;
 - improved public engagement and consultation processes are informing MPA priorities;
 - a framework for measuring community engagement has been introduced to track the impact of such activity;
 - a strategic policy framework is being put in place to enable the MPA to set a clear direction for the MPS on major policy issues;
 - the Authority continues to develop the effectiveness of its scrutiny role and is in the process of revising its committee structures to support decision making; and
 - the corporate approach to performance management has been developed with a new performance appraisal process.
- 45** Among the areas identified for improvement are:
- ensuring reports on progress against plans and projects focus on outcomes rather than inputs to show the impact of the Authority's work; and
 - developing a strategic approach to Human Resources management.

Closing remarks

- 46** We have discussed and agreed this Letter with the MPA's Chief Executive, Deputy Chief Executive, Treasurer and Director of Audit, the MPS Director of Resources, the Deputy Commissioner and the Deputy Mayor. We will present the Letter at the Corporate Governance Committee in December 2008 and we will provide copies to all Authority Members.
- 47** Further detailed findings, conclusions and recommendations on the areas covered by audit work are included in the reports issued to the Authority during the year.

Table 3 Reports issued

Report	Date of issue
Audit plan	March 2007
Police Overtime	May 2008
Police use of resources: - Phase I - Phase II	June 2008 October 2008
Implementation of CCC	August 2008
Partnerships	August 2008
Report to those charged with governance	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Opinion audit report	October 2008
Review of police data quality	November 2008
Annual Audit Letter	November 2008

Closing remarks

- 48 The MPA and MPS have taken a positive and constructive approach to our work. We wish to thank officers for their support and cooperation during the audit.

L.J. Kidner
District Auditor
28 November 2008

Appendix 1 – Glossary

CIPFA - The Chartered Institute of Public Finance and Accountancy

HMIC - Her Majesty's Inspectorate of Constabulary

IFRS - International Financial Reporting Standards

IPA - Initial Performance Assessment

MPA - Metropolitan Police Authority

MPS - Metropolitan Police Service

PURE - Police Use of Resources Evaluation

The Code - Audit Commission's Code of Audit Practice

The Audit Commission

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Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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