

Audit plan

Metropolitan Police Authority

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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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Introduction

This plan sets out the audit work that I propose to undertake for the 2010/11 audit of financial statements and the value for money conclusion.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises the different responsibilities of auditors and of the audited body and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £516,000. This is unchanged from the fee for 2010/11 my predecessor reported to the Corporate Governance Committee on 14 June 2010.

4 In setting the fee, he assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Authority will supply good quality working papers to support the restated 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes work on material systems and this is available for our review in line with agreed timescales.

5 Where these assumptions are not met, I will undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the MPA Treasurer. I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

6 I have set out further information on the basis for the fee in Appendix 1.

7 The Audit Commission has recently consulted on its [fee proposals for 2011/12](#) and is reviewing responses.

8 The impact of stopping Comprehensive Area Assessment (CAA), including the cost of making several hundred staff redundant, has limited the rebate the Commission can afford to give bodies. However, the Commission is proposing a rebate of 1.5 per cent to police authorities to reflect the new approach to value for money (VFM). In the MPA's case, this would give a rebate of £7,740.

Specific actions the MPA/S could take to reduce audit fees

9 The Audit Commission requires its auditors to inform audited bodies of specific actions they could take to reduce audit fees. We made recommendations in our 2009/10 Opinion Audit Report to help management further improve the accounts closedown, including:

- strengthening closedown procedures to identify all cash balances held by the MPA/S and reflect these appropriately in the financial statements;
- providing evidence to show that all covert bank accounts are included in the financial statements;
- reviewing the quality of evidence supporting manual journals sampled by audit wherever possible providing third-party evidence to support transactions; and
- conducting a quality review of the draft Whole of Government Accounts return before submission for audit to ensure the return is consistent with the financial statements.

Auditor's report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

10 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the MPA as at 31 March 2011.

Materiality

11 I will apply materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

12 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the MPA/S, including assessing your own risk management arrangements;
- considering the financial performance of the MPA/S;
- assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the MPA/S' information systems.

Identification of specific risks

I have considered the audit risks relevant to my 2010/11 opinion audit and set these out in Table 1 below.

13 The audit response reflects the procedures I plan to undertake in response to these specific risks. It is not a list of all the procedures I plan to undertake as part of my 2010/11 audit.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>Financial outlook</p> <p>Public bodies face increasing pressure to deliver their financial plans during a period of reduced funding while still meeting demand for their services. Errors or deliberate manipulation of the Authority's income and expenditure may distort the Authority's true financial position.</p>	<p>I will carry out detailed testing of income and expenditure, including estimation processes, to ensure 2010/11 income and expenditure is materially accurate and complete.</p>
<p>International Financial Reporting Standards</p> <p>The Authority will produce financial statements in line with IFRS for the first time in 2010/11. This change in the financial reporting framework has a significant impact in several accounting areas. If these changes are not identified and accounted for correctly, there is a risk of material misstatement in the 2010/11 financial statements. The key changes required by IFRS relate to:</p> <ul style="list-style-type: none">■ leases, with stricter criteria determining when leases should be accounted for on the Authority's balance sheet as 'finance leases';■ a new requirement to identify and depreciate material components of fixed assets separately; and■ liabilities relating to employee compensated absences mainly untaken holiday entitlements, which the Authority will need to calculate and include on its balance sheet (a complex area in respect of police staff).	<p>The Authority has restated its 2009/10 statements under IFRS. I will undertake detailed testing to assess whether the Authority has correctly identified and acted on all the accounting changes required by CIPFA's IFRS-based Code. In particular, I will review:</p> <ul style="list-style-type: none">■ the Authority's classification of its lease agreements;■ the Authority's approach to identifying and separately depreciating material components of its fixed assets; and■ the method for calculating the liability for employee absences.

Risk area	Audit response
<p>Costs of organisational change</p> <p>The Authority is offering severance packages to certain groups of staff as one means of delivering the financial savings required in 2011/12 and beyond. Severance packages can be complex, politically sensitive and require careful accounting. There is a risk the Authority may not correctly disclose the liabilities arising from redundancies in the financial statements.</p>	<p>I will carry out testing to ensure that severance costs and other significant expenditure arising from organisational change are correctly reflected in the financial statements in line with relevant accounting standards.</p>

Testing strategy

I have produced a testing strategy based on the risks above. This consists of testing key controls and substantive tests of transaction streams and material year-end account balances.

14 The purpose of my testing strategy is to reduce the risk of material misstatement in the financial statements to an acceptably low level. The strategy will seek to conduct the audit in as efficient a manner as possible. I will obtain sources of evidence from third parties and the previous year's audit, and will place reliance on Internal Audit's work to minimise the audit burden on MPA and MPS staff.

15 I carry out audit testing both before and after the draft financial statements have been produced. Where possible, I will complete substantive testing before the financial statements are available for audit. I will aim to carry out early substantive testing in the following areas.

- Reviewing accounting policies.
- Testing bank reconciliations.
- Testing the existence and ownership of Plant, Property and Equipment balances.
- Testing year-end feeder system reconciliations.
- Testing grant income.
- Testing material year-end journals.

16 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. My audit team liaises closely with the MPA's Director of Audit Risk and Assurance to prevent duplication. For 2010/11, I expect to be able to use the results of the following pieces of Internal Audit's work.

- Payroll.
- Staff Pensions.
- Police Officer Pensions.

17 I plan to rely on the work of the following experts who provide material estimates for the Authority's financial statements.

- Hymans Robertson as the scheme actuary for the Police Officer Pension Fund.
- GL Hearn and Drivers Jonas as the valuers for the MPA's property portfolio.

Value for money conclusion

I am required to give a statutory Value for money conclusion.

18 The VFM conclusion is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the MPA/S are managing their financial risks to secure a stable financial position; and
- challenging how the MPA/S are securing economy, efficiency and effectiveness, focusing on whether the MPA/S are prioritising resources within tighter budgets and improving productivity and efficiency.

19 VFM conclusion guidance available on the Audit Commission's website at <http://www.audit-commission.gov.uk/technicaldirectory/vfm/index.htm> sets out the approach in more detail.

20 I have completed my risk assessment based on my current knowledge of the MPA/S's arrangements under these criteria. My risk assessment informs my approach to this year's work which I have agreed with the MPA Treasurer and MPS Director of Resources. I have set out the areas I will consider to reach my VFM conclusion below.

Financial governance

- Do MPA members and MPS management have a clear understanding of their financial position and are they using this to determine medium-term priorities, set challenging financial targets and challenge financial performance?
- How do the MPA/S communicate and engage staff and stakeholders on their financial position? In particular, how are staff and stakeholders involved in financial planning issues affecting them?

Financial planning and control

- Have the MPA/S set a balanced budget for 2011/12 based on realistic projections about pay, inflation and demand for policing services which identifies the individual savings plans needed to balance the budget?
- Have the MPA/S set a sustainable medium-to-long term financial plan which takes account of strategic priorities, risks and the impact of demographic trends or other economic, environmental or social pressures?
- Do the MPA/S take prompt action to address variances and understand the reasons for them?

Prioritising resources

- How do members and senior management prioritise resources and identify where to reduce spending?
- Are the MPA/S exploring opportunities to improve efficiency and outcomes through wider use of partnerships, including with the voluntary sector?

Improving productivity and efficiency

- Are the MPA/S reviewing and challenging all areas of expenditure and unit costs to identify where savings can be made or productivity improved?
- Are the MPA/S on track to deliver the budget and efficiency plan for 2010/11?
- How do the MPA/S review key workforce decisions, including staffing levels, grade mix and shift patterns to ensure they best meet expected demand for policing services and represent good value for money?

21 I expect to carry out most of the work by April 2011 with a revisit in the summer to ensure the VFM Conclusion reflects the latest position. I will draw substantially on cumulative knowledge of the MPA/S obtained from my predecessor's work on the PURE assessment. I will also coordinate my work to align with HMIC's 'Valuing the Police' inspection, taking place around the same time, to minimise the burden of audit and inspection on officers.

Key milestones and deadlines

The MPA is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

22 The key stages in producing and auditing the financial statements are set out in Table 2.

23 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

24 Every week during the audit the audit team will meet with the MPA Deputy Treasurer and the MPS Lead Accountant and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Interim audit: audit planning, controls testing, early substantive testing and review of restated 2009/10 IFRS statements	January to April 2011
Draft financial statements approved by MPA Treasurer	by 30 June 2011
Receipt of draft financial statements	by 1 July 2011
Sending audit working papers to the auditor	by 1 July 2011
Audit testing of financial statements	July to September 2011
Progress meetings	Weekly – July to September 2011
MPA Corporate Governance Committee approve financial statements	September 2011 (date to be agreed)
Present Annual Governance Report to MPA Corporate Governance Committee	September 2011 (date to be agreed)
Issue opinion and value for money conclusion	By 30 September 2011
Annual Audit Letter	To discuss and finalise by 30 November 2011.

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Karen McConnell Senior Director of Audit	k-mcconnell@audit-commission.gov.uk 0844 798 5814	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the MPA Chief Executive.
Martin Searle Senior Audit Manager	m-searle@audit-commission.gov.uk 07876 397608	Manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer, Director of Resources and other MPS Management Board Members.
Tom Edgell Audit Manager	t-edgell@audit-commission.gov.uk 0778 670 4178	Works to the Senior Audit Manager and to resource and manage the day-to-day audit. Leads on HMI liaison. Provides regular updates on audit progress through liaison with finance staff, Internal Audit and other key staff.
Thom Collins Principal Auditor	t-collins@audit-commission.gov.uk 0844 798 2617	Manages and reviews work of the audit team and works with Audit Manager to deliver audit. Provides regular updates on audit progress through liaison with finance staff.

Independence and objectivity

25 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

26 I comply with the ethical standards issued by the APB and with the Commission's requirements for independence and objectivity as summarised in Appendix 2.

Meetings

27 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. I have set out my proposals in Appendix 3.

Quality of service

28 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly to resolve the position.

29 If you are still not satisfied you may raise the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

30 My team will discuss and agree reports with the right officers before issuing them to the Corporate Governance Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	MPA Corporate Governance Committee, September 2011
Auditor's report giving an opinion on the financial statements and value for money conclusion.	By 30 September 2011
Opinion Audit Report to management	October 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based on assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment starts with the identification of the significant risks applying to the MPA/S based on:

- my cumulative knowledge of the MPA/S:
 - planning guidance issued by the Audit Commission;
 - the specific results of previous audit work;
- interviews with MPA/S officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the necessary professional standards in the delivery of its work;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements that I can place reliance on for my audit;
- you provide:
 - good quality working papers and records to support the financial statements by 1 July 2011;
 - information asked for within agreed timescales;
 - prompt responses to audit reports; and
- there is no significant work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

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 the 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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires the appointed auditor:

- disclose 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 the auditor has charged the client; and
- confirm 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.

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 Authority on matters which I consider to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding requirement that appointed auditors carry out their work independently and objectively. They must ensure they do not act in any way that might cause, or could reasonably be perceived to cause, a conflict of interest. Appointed auditors and their staff should avoid entering 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.

The Standing Guidance for Auditors includes specific rules relevant to the audit.

- Appointed auditors should not perform additional work for an audited body (that is work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might cause a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out work in a particular area that is unnecessary to support the auditor's opinion and conclusions, it should be clearly differentiated as additional work in the Audit Plan 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 seven years, with additional safeguards in the last two 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.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Officers	Audit Commission staff	Timing	Purpose
MPA Chief Executive	District Auditor and Senior Audit Manager	Quarterly	General update and agreement of annual audit plan and annual audit letter.
MPA Treasurer MPS Director of Resources	District Auditor, Senior Audit Manager or Audit Manager	Quarterly	General update and agreement of annual audit plan and annual governance report.
MPA Director of Audit, Risk and Assurance	Senior Audit Manager, Audit Manager or Principal Auditor	Monthly	To discuss emerging risks, share audit plans and joint-working to minimise duplication of effort.
MPA Deputy Treasurer MPS Chief Accountant	Audit Manager or Principal Auditor	January to June 2011 – monthly July to September 2011 – weekly	Update on audit progress and any issues identified by audit testing.
MPA Corporate Governance Committee	District Auditor, Senior Audit Manager and Audit Manager or Principal Auditor	Per committee timetable	Formal reporting of: <ul style="list-style-type: none"> ■ audit plan; ■ annual governance report; and ■ other issues as appropriate.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditor's work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Directors

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality and significance

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Remuneration report

Audited bodies are required to produce and publish with the financial statements a remuneration report that discloses the salary and pension entitlements of senior managers.

Annual Governance Statement

Local government bodies, including police authorities, are required to publish an Annual Governance Statement (AGS) with their financial statements. The disclosures in the AGS are prepared in accordance with guidance issued by CIPFA and supported and evidenced by the body's assurance framework.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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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 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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