

# External audit progress report

February 2010

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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# Audit update

**1** The purpose of this paper is to update the MPA Corporate Governance Committee on progress in delivering my responsibilities as the Authority's external auditor. It also highlights key emerging national issues and developments which may be of interest to committee members.

**2** If you require any additional information regarding the issues raised, please contact me or my audit team using the contact details in Table 1 below.

## Progress against the 2010/11 audit plan

**3** My predecessor reported his proposed fee for the 2010/11 audit to the Corporate Governance Committee on 14 June 2010. I am now in a position to issue my detailed 2010/11 audit plan setting out the work I plan to undertake to inform my audit opinion and value for money conclusion. I have included this as a separate item on the Corporate Governance Committee's agenda.

**4** Appendix 1 sets out the intended outputs in the 2010/11 audit plan and our progress in delivering them to date. I have set out more details of current pieces of work below.

## Financial statements opinion audit

### International Financial Reporting Standards (IFRS)

**5** Police authorities, in common with the rest of the local government sector, are required to prepare their 2010/11 financial statements in accordance with the IFRS-based Local Government Code of Accounting Practice prepared by CIPFA.

**6** MPS and MPA Finance Officers have now substantially completed the restatement of the 2009/10 financial statements in readiness for the 2010/11 accounts closure. Restated accounts have been provided to my audit team. In January I reviewed the progress made against the IFRS project plan and assessed the MPA/S's preparedness for IFRS as 'green' indicating that the work is on track (previous risk assessment: 'green' in October 2010). Our testing of the material changes arising from IFRS is currently in progress.

## Material financial systems

7 My audit team started its annual programme of work on the Authority's material financial systems in January 2011. This work involves:

- conducting a walkthrough test through each material system to confirm the system is operating as designed, as required by International Standard on Auditing (ISA UK&I) 315;
- reviewing the testing performed on the Authority's general ledger, payroll and pensions systems conducted by Internal Audit in 2010/11 to determine whether I can place reliance on this work; and
- conducting my own top-up testing of controls in these systems for the final quarter of the financial year not covered by Internal Audit.

8 The outcome of this work will inform my testing strategy for the 2010/11 financial statements. I will discuss any control weaknesses identified by this testing with management in the first instance. Should I identify a control weakness I consider to be significant I will also report this to the Corporate Governance Committee. I have identified no significant control weaknesses in my work so far. Should I be unable to gain sufficient assurance from controls testing I will consider the impact on the audit fee.

## Changes to International Standards on Auditing for 2010/11

9 Certain aspects of my audit approach will change in 2010/11. These changes reflect the changes made to International Standards on Auditing (ISAs) as a result of the International Auditing and Assurance Standards Board's ISA Clarity Project conducted in 2009. The purpose of this project was to promote greater consistency of application between auditors and reduce potential for ambiguity within existing ISAs.

10 The main changes you will see relate to the audit work my team will conduct on:

- general ledger journals, with increased audit work to review and test year-end journals to identify unusual or erroneous items, making use of computer-aided audit techniques where appropriate; and
- accounting estimates, with increased audit work to understand and evaluate the estimation techniques used, the degree of uncertainty, and the reliability of estimates made in the past.

11 These changes to the auditing standards will increase the audit procedures that I will need to carry out. The Audit Commission will use its own efficiency savings to absorb the cost of any additional requirements.

## Value for money conclusion 2010/11

**12** The Commission wrote to all audited bodies on 9 August 2010 setting out the proposed new arrangements for local value for money audit work. Where previously the value for money conclusion was based on criteria in the annual Police Use of Resources assessment, from 2010/11 it will be based on the auditor's assessment of the MPA/S's arrangements for:

- securing financial resilience, focusing on whether the MPA/S are managing 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.

**13** I have agreed the work programme I will undertake for each of these criteria with the MPA Treasurer and MPS Director of Resources. More details are set out in my 2010/11 audit plan, included separately on the Corporate Governance Committee's agenda. I expect to carry out the bulk of the work by April 2011 and will coordinate my work with HMIC's 'Valuing the Police' inspection to minimise the burden of audit and inspection on the MPA and MPS.

**14** Detailed Value for money conclusion guidance for auditors is now available on the Audit Commission's website at <http://www.audit-commission.gov.uk/technicaldirectory/vfm/index.htm>.

## Raising fraud awareness

**15** Between January and March 2011 we will deliver the second phase of workshops as part of the MPA/S's Raising Fraud Awareness programme. We expect to deliver ten workshops in total to over 300 senior officers and finance staff from across the MPS. The workshop material builds on the results of those delivered in 2009. All attendees have been asked to complete the on-line survey, which was previously completed by all those who attended the 2009 workshops. This allows us to identify how the MPA/S have progressed over the last two years.

**16** Delegates' feedback from the first two workshops shows these have been well-received. We will report the results to management on completion of the workshops.

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Table 1: **Your audit team's contact details**

<b>Name</b>	<b>Telephone</b>	<b>Email</b>
Karen McConnell Engagement Lead	0844 798 5814	k-mcconnell@audit-commission.gov.uk
Martin Searle Senior Audit Manager	0787 639 7708	m-searle@audit-commission.gov.uk
Tom Edgell Audit Manager	0778 670 4178	t-edgell@audit-commission.gov.uk

## Other matters of interest

### Sustaining value for money in the police service

**17** After a decade of increases in spending, police services will need to cope with less money. The Government's spending announcement in October 2010 confirmed that the police formula grant will reduce by 20 per cent over the four years to 2014/15. Police authorities and forces face real challenges in identifying how they will achieve the required savings while maintaining service levels and capacity during the transition to the new arrangements for Police and Crime Commissioners.

**18** The report 'Sustaining value for money in the police service' is a joint report by the Audit Commission, Her Majesty's Inspectorate of Constabulary and the Wales Audit Office proposes that around £1 billion could be saved without cutting services to the public. It proposes that forces can work together more effectively in order to help each other and identify potential savings through collaboration. It also contains case studies highlighting good practice already evident in police authorities and forces nationally.

**19** The report is available on the Audit Commission's website <http://www.audit-commission.gov.uk/nationalstudies/communitysafety/policevfm/Pages/default.aspx>. The webpage also has several supporting tools which committee members may find useful in assessing and comparing the MPA/S's own arrangements.

### Challenges faced by audit committees

**20** On 18 November 2010 the Financial Reporting Council (FRC) published a report highlighting the challenges faced by audit committees (or those carrying out the functions of an audit committee). The report is aimed primarily at private sector bodies, but committee members may want to review the report as there are also some important messages for public bodies.

**21** Recent studies by the FRC have consistently identified scope to improve companies' risk management arrangements. Some companies present a list of all possible risks rather than those that might be regarded as 'principal risks'. Work by the FRC has also identified that it is not always clear whether risks and uncertainties have been fully evaluated and taken into account in preparing budgets and forecasts. The Corporate Governance Committee may wish to consider the points raised by FRC when scrutinising the MPA's own risk management arrangements.



**22** Earlier in this progress report I updated you on my approach to accounting estimates in the 2010/11 financial statements. The FRC's report states audit committees are likely to want greater assurance that key judgments and accounting estimates are supported by a rigorous and robust analysis during a period of reduced funding when there is more pressure on budgets than during periods of growth. The Corporate Governance Committee may wish to consider how it will get assurance that the estimates made by management in the 2010/11 financial statements are robust.

**23** The FRC's paper can be found on its website at <http://www.frc.org.uk/press/pub2442.html>. It ends with a series of questions that the Corporate Governance Committee may find it helpful to review itself against.

# Looking ahead

## The future of the Audit Commission

**24** Members will be aware that the Secretary of State for Communities and Local Government announced that he intended to abolish the Audit Commission. At present the required primary legislation has yet to be timetabled. The Audit Commission intended to explore ways in which to take its existing audit practice out of public ownership, and these are continuing. I will keep members and senior officers apprised of key developments and I am happy to provide a verbal update if members require.

## Our Audit Practice Annual Quality Report

**25** In October 2010 the Audit Commission published the Annual Quality Report for its Audit Practice. The report summarises the results of the quality review of the work of the Commission's own staff as auditors to NHS and local government bodies. It compares our Audit Practice with the major accountancy firms and the other audit agencies and includes the views of the Financial Reporting Council's Audit Inspection Unit that carried out an independent review of our work.

**26** The key findings are as follows.

- The quality of the Audit Practice's work continues to meet professional standards and there has been a measurable improvement in quality compared with the prior year. Audited bodies' overall satisfaction with their auditors remains high.
- The provision of technical advice to auditors is timely, informative and, most importantly, well researched and accurate.
- Improvements are evident in compliance with quality standards for local value for money work although there remains scope for improvement.

**27** The report also summarises the actions we are taking to improve our quality arrangements. It is available on the Audit Commission's website at <http://www.audit-commission.gov.uk/sitecollectiondocuments/downloads/20101012AuditPracticeReport.pdf>.

## Appendix 1 Outputs from our 2010/11 audit

Area of audit plan	Timetable for work	Final report date	Comments
Audit fee letter	-	June 2010	My predecessor reported his proposed 2010/11 audit fee to the Corporate Governance Committee on 14 June 2010.
Audit plan	January – February 2011	March 2011	My 2010/11 audit plan is included as a separate item on the Corporate Governance Committee's agenda.
Annual Governance Report	January – September 2011	September 2011	Report summarising significant issues arising from audit of financial statements. We plan to report this to the Corporate Governance Committee in September 2011.
Auditor's report on the financial statements and the VFM conclusion	January – September 2011	September 2011	Fieldwork in progress.
Opinion audit report	October 2011	November 2011	Detailed report on findings from audit of financial statements, addressed to MPA/S finance officers.
Annual Audit Letter	October 2011	November 2011	Summarises the main findings from our 2010/11 audit programme.

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- any third party.



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946