

Annual Audit Letter

Metropolitan Police Authority

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit. My audit covers:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Challenges and opportunities

The Authority and Service face a period of significant change and challenge. The Service is preparing to police the 2012 Games while delivering modernisation and reform through a series of programmes designed to help deliver 25 per cent financial savings over the next four years.

In early 2012, there will be significant changes that impact on the governance of policing in London. In response to the Police Reform and Social Responsibility Act 2011, separate corporations sole will be established for the new Mayor's Office for Policing and Crime and the Commissioner of Police of the Metropolis. This is a very demanding timescale in which to deliver the changes needed making strong leadership, focus and joint working between the Authority and Service vital to its success. The Service will also need to respond to any changes in policy direction which arise following the London Mayoral election in May 2012.

The Service has recently appointed a new Commissioner and made some other appointments to senior police posts. Effective leadership and communication will be vital to ensure senior management knowledge and capacity is retained to deliver the far-reaching changes to the business required.

Audit opinion and financial statements

On 29 September 2011, I gave an unqualified opinion on the Authority's 2010/11 financial statements. I reported the findings from my audit in my Annual Governance Report to Authority members on 15 September 2011. My unqualified opinion on 29 September compares well with the 38 local government bodies nationally that did not receive an opinion by the statutory date of 30 September 2011.

Police authorities, in common with other local government bodies, prepared financial statements in line with International Financial Reporting Standards for the first time this year. The Authority prepared for IFRS well. My audit found the Authority had accounted for all significant changes arising under IFRS correctly.

The Authority made 12 amendments to the financial statements as a result of my audit. These amendments were presentational and did not affect the Authority's reported financial performance as measured by its available reserves.

Value for money conclusion

I am satisfied the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the

year ended 31 March 2011. I gave an unqualified Value for money conclusion alongside my audit opinion on 29 September 2011.

There were no other outstanding matters so I gave my certificate formally closing my 2010/11 audit on the same date.

Challenges and opportunities

This is a period of real challenge for the public sector and the police sector in particular. I have outlined the key challenges and opportunities the MPA and MPS currently face. I have made three recommendations focusing on managing key areas of risk.

Preparation for the Mayor's Office for Policing and Crime

The Police Reform and Social Responsibility Act 2011 received Royal Assent on 15 September. It covers five distinct policy areas:

- police accountability and governance;
- alcohol licensing;
- regulating protests around Parliament Square;
- misuse of drugs; and
- the issue of arrest warrants in respect of private prosecutions for universal jurisdiction offences.

The latter four areas deal with operational policing issues, whereas the first will lead to the replacement of the existing tripartite relationship between the Home Office, police authority and the force at a national level. The new arrangement will fundamentally change governance of policing in London with the following changes:

- the Metropolitan Police Authority will cease to exist;
- in London the Mayor's Office for Policing (MOPC) will be established; and
- the Commissioner of Police of the Metropolis (the Commissioner) will be established.

The MOPC and the Commissioner will be separate corporations sole and designated as bodies subject to audit by an auditor appointed by the Audit Commission. The timescale for implementation of the new arrangements will be tight. Secondary legislation and supporting guidance is yet to be issued in key areas, such as:

- the content of the police and crime plan;
- the inter-relationship of the different parties;
- public information; and
- transfer of assets, liabilities and contracts.

The absence of secondary legislation and guidance should not detract from the MPA and MPS planning for the new arrangements and, vitally, developing effective governance arrangements, and the systems, processes and resources to support those arrangements, for both the MOPC and the Commissioner.

The MOPC and the Commissioner will each need to prepare annual financial statements in accordance with 'proper practices'. My understanding is that both organisations will need to:

- prepare financial statements for the year ending 31 March 2012 on a 'merger accounting' basis – presenting their financial performance as if they had been in existence from the start of the financial year;
- prepare both 'single entity' accounts (reflecting its own activities) and group accounts (reflecting the sum of its own activities and those of the Commissioner); and
- exercise judgements over the attribution of income, expenditure, assets and liabilities between themselves, potentially in advance of final determination of the allocation of responsibilities.

Recommendations

R1 The MPA and MPS should work closely together, and liaise with the Home Office as appropriate to ensure:

- the governance requirements of the Police Reform and Social Responsibility Act are properly understood and adhered to; and
- there is no loss of focus and scrutiny during a period of significant change and financial pressure.

R2 The MPA and MPS should work closely together to develop, implement and monitor a project plan for the consolidation and preparation of single entity and group accounting statements for the 2011/12 financial year. One immediate and critical task is for the MPA and MPS to establish the basis for allocating income, expenditure, assets and liabilities between the Mayor's Office for Policing and Crime and the Commissioner of Police of the Metropolis.

The economic downturn and pressure on public finances

The economic downturn is placing increasing pressure on the public sector as a whole. Following the challenging Comprehensive Spending Review settlement and resulting Police Grant allocation the Authority reports it will need to meet £746 million of savings over the three-year period 2011/12 to 2013/14. The Authority's current estimate of the budget gap for 2014/15 puts this at a further £226 million.

The Authority has a track record of exceeding savings targets which provides a good foundation for the current period of austerity. The savings required over the next four years is unprecedented however, and will require strong financial management if the savings are to be achieved while preserving police officer numbers in readiness for the 2012 Olympic Games. At the end of August 2011 the Authority reported it was on track to deliver the budget for 2011/12 before the significant additional costs relating to the summer disturbances in London are taken into account. These include:

- the direct cost of policing the disturbances, including MPS overtime and the cost of using police officers from other forces. At the end of September 2011 these costs stood at £80 million, with this expected to increase as police investigations into the summer disturbances continue; and
- the cost of claims made under the Riot Damages Act (RDA) 1886 which allows individuals and businesses to apply to their local police authority for damages incurred to property as a result of rioting. The Authority estimates the full cost of these RDA claims is likely to be between £200 million and £300 million, with the final position to become clearer as legal officers complete the process for assessing claims.

The Authority has applied for additional grant from the Home Office in respect of these costs. In determining the level of funding available to police authorities for riot-related costs the Home Office will first assess individual authorities' financial standing and the extent to which they are able to meet these costs themselves. The Authority will need to respond promptly to any shortfall between riot-related costs and the additional funding available. It will need to review the options it has available to deliver a balanced budget, including identifying and progress additional savings schemes, and reviewing the extent to which it can draw on its reserves to cover part of the cost. This will make the delivery of a balanced budget for 2011/12 a key challenge.

Recommendation

R3 Keep the financial impact of the summer disturbances in London under close review and take prompt action to assess and agree the options available to deliver a balanced budget for 2011/12.

Delivery of major change programmes

The Authority plans to deliver £163 million savings in 2011/12 of which £140 million relate to planned major change programmes in both operational policing functions and support functions including estates, training and information technology. The significance of these programmes means they typically span several financial years and will require implementation when other areas of the business are also implementing significant change programmes.

The delivery of the Authority's major change programmes will be challenging. The Authority will need to respond to emerging financial pressures and demand for services during the implementation period which will require planning assumptions to be continually revisited. Careful planning and handover arrangements will also be needed to ensure the recent changes in key personnel on the MPS Management Board do not result in a loss of knowledge and capacity to deliver the required changes at a senior level. At the end of September 2011 the Authority reported it was on track to deliver £124 million of the planned £140 million savings attached to change programmes by the end of 2011/12.

Recommendation

R4 Monitor the overall delivery of these change programmes and the associated savings closely over the implementation period and take prompt action where slippage or financial variances occur.

Policing the 2012 Olympic and Paralympic Games

The Authority is also preparing to police the 2012 Olympic and Paralympic Games. This will be a major policing exercise requiring significant police officer deployment from across the MPS and from other forces nationally. Early project planning has been needed to identify the total police numbers required, to manage the impact of this on day-to-day policing, and to plan for the logistical aspects of 2012 policing including accommodation, technology and transport.

The Authority scrutinises the Olympics delivery plan and associated business cases through its Olympics and Paralympics Subcommittee, which is chaired by an Authority member and which reports regularly to all Authority members on progress. The Authority will need to continue to monitor progress against the Olympics delivery plan closely as the 2012 Games approach to ensure the project is on track and on budget and an appropriate balance is achieved between policing the Games and maintaining day-to-day resilience with the resources available.

The Winsor review of police remuneration and conditions

The review by Tom Winsor of police conditions and pay is in two stages. The first stage, which reported in March 2011 covered:

- the deployment of officers and staff (including shift allowances, overtime and assisting other police forces);
- post and performance-related pay (including special priority payments, competence related threshold payments for constables and bonuses at all ranks); and
- how officers leave the police service.

It stated that implementation of its recommendations could result in some £217 million being saved or reinvested in front line services by police forces nationally by April 2014. The second stage of the review, which is due to report in January 2012, is looking at:

- entry routes into the police service;
- the career of officers and police staff – including the future of pay scales, progression increments and performance appraisal; and
- the pay negotiating mechanisms themselves.

The Authority has started work to assess the impact of the recommendations made by the review and the action required to update the MPS's arrangements in line with these. Management's initial estimate of the net annual saving to the MPS arising from these recommendations is £15 million from 2012/13 onwards.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds.

Overall conclusion from the audit

I gave an unqualified opinion on the Authority's financial statements on 29 September 2011. I reported 12 amendments to Authority members on 15 September 2011. Management corrected the financial statements for these amendments, which were presentational in nature and did not change the Authority's reported financial performance as measured by its available reserves. I am satisfied the Authority prepared its 2010/11 Annual Governance Statement in line with CIPFA/SOLACE requirements.

Police authorities, in common with other local government bodies, were required to prepare their financial statements in line with International Financial Reporting Standards (IFRS) for the first time in 2010/11. To prepare for IFRS, authorities needed robust project plans to ensure they can collect and review the necessary information to restate balances, including those for Private Finance Initiative and finance lease schemes, often with considerable lead-in times, and agree these with auditors at an early stage. I am satisfied the Authority has prepared for IFRS well with effective project planning and progress reporting. There has been timely communication of proposed accounting changes with my audit team. My audit of all material adjustments made in the financial statements relating to IFRS identified no major errors.

The Authority has strengthened the quality control arrangements for its Whole of Government Accounts (WGA) submission in response to the weaknesses in this area reported by my predecessor in last year's Annual Audit Letter. My audit of the WGA submission went smoothly and I certified the submission on 30 September 2011, in line with the timescale set by the Department for Communities and Local Government.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements that might result in material errors occurring in your financial statements. My review of Internal Audit's work confirmed this met quality standards allowing me to place reliance on it rather than perform additional testing of my own.

Value for money

I am satisfied the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources and gave an unqualified value for money conclusion on 29 September 2011. I have set out my key findings below.

The organisation has proper arrangements in place to secure financial resilience.

The MPA and MPS have a track record of delivering efficiency targets. In 2010/11 the MPA and MPS delivered the savings target of £124 million required by the Home Office and delivered additional savings of £33 million following the decrease in revenue grant funding announced by the Home Office during the year.

The Authority set a balanced budget for 2011/12 as part of its medium-term financial strategy for the three-year period 2011 – 14 in March 2011. This includes no reductions in operational capability. The MPA and MPS have achieved this through robust efficiency planning and a planned decrease in general reserves from £71 million to £43 million over the next three years. While maintaining an overall freeze on the GLA precept the London Mayor has realigned resources across the GLA group and made an additional £42 million available to support policing in the capital.

The Authority has quantified the budget gap it will need to 'close' for the next three years. At November 2011 this stood at £86 million for 2012/13, £145 million for 2013/14 and £226 million for 2014/15. Delivering these savings will be challenging when the MPS is committed to the significant demands associated with policing the 2012 Olympic Games. The Authority will also need to ensure effective governance and scrutiny of savings is maintained during the period leading up to its replacement by the Mayor's Office for Policing and Crime in early 2012.

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The Authority's medium-term financial strategy includes savings of £746 million the Authority expects to deliver in the three-year period to 2013/14. £163 million is planned for delivery in 2011/12, £260 million in 2013/14 and £323 million in 2014/15.

The Authority expects to deliver these savings principally through a series of major change programmes. The largest of these is the Territorial Policing Development Programme (£124 million planned savings). The MPS's other business groups have similar schemes as well as corporate schemes like Corporate Real Estate (£93 million planned savings). In the early part of 2011/12 the Authority enhanced the monitoring information received by the MPA and by MPS Management Board to monitor the delivery of each of the major change programmes. It is important this information is used effectively to ensure the risks to the delivery of these programmes are well managed and any delays or emerging risks dealt with at an early stage.

Severance payments

In April 2011, the former MPS Director of Human Resources retired from his post. In July 2011, the former Commissioner and the former Assistant Commissioner for Specialist Operations announced their intentions to resign from their posts. The Metropolitan Police Authority has since made termination payments and entered into compromise agreements with both officers. As part of my 2011/12 audit I am currently reviewing the process by which the Authority agreed the termination payments, including considering the internal and external legal advice sought and obtained. I will report my findings to the Authority when I have completed my work.

Closing remarks

I have discussed and agreed this letter with the MPA Chair, Chief Executive, Treasurer, the MPS Director of Resources and MPS Management Board. I will present this letter at the meeting of the MPA Corporate Governance Committee on 12 December 2011 and will provide copies to all Authority members thereafter.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Authority during the year.

Report	Date issued
2010/11 Audit Plan	March 2011
Annual Governance Report	September 2011
Opinion Audit Report	October 2011
Annual Audit Letter	November 2011

The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority staff for their support and cooperation during the audit.

Karen McConnell

District Auditor

November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	£516,000 **	£516,000	£0
Non-audit work *	£29,000	£29,000	£0
Total	£545,000	£545,000	£0

* The £29,000 fee for non-audit work relates to ten fraud awareness workshops to 350 senior MPS officers and managers delivered by Audit Commission staff as part of the MPA's and MPS's joint Anti-Fraud Strategy.

** The £516,000 is the gross fee agreed with you for the 2010/11 audit. In February 2011 the Audit Commission confirmed it would give a fee rebate of 1.5 per cent to all clients following the cessation of the Comprehensive Area Assessment. For the Metropolitan Police Authority the rebate was £7,740. The scale fee for 2010/11 net of this rebate is £508,260. The total net audit fee is £537,260.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission. If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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