

Annual Audit and Inspection Letter

November 2007



Annual Audit Letter

Metropolitan Police Authority

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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- any directors in their individual capacity; or
- any third party.

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Summary

Key messages

- 1 We issued an unqualified opinion on the Authority's 2006/07 accounts and those of its pension fund on 28 September 2007. Arrangements to support the production of the accounts were much improved this year.
- 2 We issued our value for money conclusion on 28 September 2007, concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except for putting in place arrangements to maintain a sound system of internal control.
- 3 The Authority's hard-won financial position has been consolidated against a background of substantial financial pressures and demanding efficiency targets. Overall arrangements for financial management and value for money were assessed as adequate, although considerable work to secure improvement is ongoing. The arrangements to maintain a sound system of internal control continued to require improvement during 2006/07, and action has been taken, or is being taken, to strengthen arrangements going forward.
- 4 The Authority has continued to develop its capacity during 2007, in particular through its organisational development programme. Further capacity building to support future improvement is underway and now needs to be accelerated.

Action needed

- Continue to develop risk management within corporate business processes, including for partnerships, strengthen corporate controls over key financial systems and improve compliance with internal regulations.
- Maintain the drive to improve value for money through understanding the contextual elements of costs, identifying inefficiencies and analysing costs and performance information.
- Further strengthen financial management arrangements, including improving the links between financial planning and policing objectives.
- Regain the momentum on delivering improvements to crime data quality.
- Continue to review and protect the Authority's financial position in the context of current and future risks.
- Strengthen the Authority's internal performance management arrangements and develop management information to support the effective scrutiny of citizen focus and community engagement activity.

Purpose, responsibilities and scope

- 5 The Authority was created by the Greater London Authority Act 1999. It holds the Metropolitan Police Service (the Service) accountable through the scrutiny and challenge of its operational performance, including its use of resources. The control and direction of the Service rests with the Commissioner.
- 6 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 ended 31 March 2007. Where relevant, this work has also included assessment of the arrangements in place in the Service.
- 7 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.
- 8 This letter also communicates the significant issues arising from our work 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 the letter on its website.
- 9 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 (the value for money conclusion); and
 - how the Authority has managed its resources - the Police Use of Resources Evaluation (PURE).
- 10 The letter commences with an assessment of the Authority's arrangements for producing its accounts. It then moves to an assessment of the Authority's arrangements to secure continuous improvement in the exercise of its functions. This was originally assessed in 2004 by an 'initial performance assessment'. We follow this up on an annual basis through a 'direction of travel' assessment. The letter finally considers aspects of the arrangements in place for securing value for money, where we consider both the Authority and Service context.
- 11 We have listed the reports issued to the Authority relating to the 2006/07 audit at the end of this letter for information.

Accounts

- 12 The overall conclusions of our audit of the Authority's accounts for the year ended 31 March 2007 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 Statement of Internal Control was prepared in accordance with proper practice as specified by CIPFA and was consistent with the findings from our audit.
- 13 Our findings were presented in our Annual Governance Report to the Corporate Governance Committee on 14 September 2007 and, following the receipt of a management representation letter, we issued unqualified opinions on the accounts and those of the pension fund on 28 September 2007. We certified completion of the audit for 2006/07 (and the two previous years) on the same date. On 2 October 2007, we certified that the Authority's accounts' submission for the national 'whole of government accounts' consolidation was consistent with the audited accounts.
- 14 Overall, the audit of the accounts represented an improvement on 2005/06. The Authority submitted its draft accounts for audit in accordance with the agreed timetable. We received a thorough set of working papers. Additional requests for information, clarifications and amendments were met promptly.
- 15 We also identified improved levels of SORP compliance. One material amendment was made to the accounts this year, reflecting a change in the disclosure requirements for deferred government grants that did not have a revenue impact. Our testing also identified a small number of non-trivial errors, none of which again had a revenue impact. Improvements were also made to the accounting arrangements for fixed assets this year, although further ongoing improvements are still required.

Initial performance assessment - follow up

- 16 We have continued to follow up the results of the Authority's Initial Performance Assessment reported in 2004, assessing the Authority's progress in developing and implementing its improvement priorities. We did this through a 'direction of travel' assessment, based on the local government approach, but tailored individually to the Authority's context.
- 17 The Authority has continued to develop its capacity during 2007 to scrutinise the Service and to support improvement, with policing in London achieving the majority of its priorities and targets in 2006/07, a reduction in overall crime for the fourth consecutive year and the further roll out of ward-level policing. The Authority's strategic oversight role in supporting this public-facing agenda has continued to be developed. It has begun to implement its organisational development programme, including restructuring, strengthening business planning, developing leadership skills, and promoting model values and behaviours.
- 18 The Authority has established new senior management posts, but a number remain unfilled which could impact on the progress of improvement plans. A new protocol for the management of change provides a clear framework for introducing future changes. A strengthened staff appraisal process for Authority staff is now in place although further improvements are planned. Capacity has also been increased through the creation of a new partnership and engagement unit to improve partnership working and community activity at the local level.
- 19 More sophisticated use of management information is required to ensure a greater focus on scrutinising the outcomes from Authority and Service initiatives, including demonstrating the impact of citizen focus and community engagement activity, for example in terms of increased community trust, confidence and satisfaction.
- 20 Strengthening ethical governance arrangements remains an Authority priority. The restructuring has integrated support for members in one unit. The planned member development programme, designed to enhance member capacity to support the delivery of the Authority's priorities, has, however, been deferred until after next year's elections.

Recommendation

R1 Strengthen the Authority's internal performance management arrangements and develop management information to support the effective scrutiny of citizen focus and community engagement activity.

Use of resources

- 21 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; and
 - assess under PURE how well the Authority and Service manage and use financial resources by providing scored judgements on the arrangements in five specific areas.

Value for money conclusion

- 22 We concluded that the Authority, having regard to the criteria for police authorities 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 2007, except for putting in place adequate arrangements to maintain a sound system of internal control.
- 23 Our detailed findings were reported to the Corporate Governance Committee in September 2007. The conclusion reached drew on the findings of our PURE work reported below. As for 2005/06, we were unable to conclude that the Authority had adequate arrangements in place to maintain internal control in 2006/07. This was also the conclusion of the Director of Internal Audit in his annual report that is reflected in the Authority's Statement of Internal Control for 2006/07. Our assessment reflected in particular:
- compliance failures with regard to the Safer Neighbourhoods estates procurement function, as reported to members on an ongoing basis; and
 - a failure to maintain prompt and regular controls during 2006/07 over key financial accounting processes, such as the bank reconciliation and the agreement of some feeder systems to the main ledger.
- 24 Actions have, however, been taken to address both issues. Key financial accounting processes were brought up to date as at 31 March 2007. The procurement process for the provision of Safer Neighbourhoods' estates has been regularised, including assessing value for money and compliance with standing orders and required procurement practice.

Police use of resources evaluation (PURE)

- 25 This is the second year that we have carried out an assessment as part of our national PURE approach. This is essentially an assessment of the core areas of financial governance that encompass arrangements within the Authority and Service. The PURE score is derived from audit reviews of five themes based on the arrangements in place at 31 March 2007. 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 Authority'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 Authority and Service balance the costs and quality of services).
- 26 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.

- 27 The Authority and Service have sustained and consolidated their position in 2006/07 and have at least adequate (level 2) arrangements in place across each of the five themes. This is reflected in the Audit Commission's overall adequate (level 2) assessment of the Authority's arrangements. Two of the themes, financial reporting and financial standing, have, however, been assessed to be performing well (level 3), with particular improvements noted this year in the arrangements for financial reporting.

- 28 Improvements have also been made in the use of resources within financial management and value for money, although this has not resulted in a change in the overall score for these themes. The arrangements to maintain a sound system of internal control have continued to require improvement (see the 'value for money conclusion' section of this letter above), although the overall score for internal control remains adequate (level 2) as it also takes into account an assessment of the arrangements for risk management and preventing fraud and corruption. Improvements are, however, required to embed a Service-wide compliance culture, further evidenced in the recurring control weaknesses over credit card expenditure reported to the November 2007 Authority meeting.
- 29 Our theme scores and the key actions for the Authority are set out in table 2. below. A detailed report covering our findings and the opportunities for improvement, with recommendations, has been provided to officers. An action plan is being developed in response to our detailed recommendations.

Table 2 PURE: Summary findings

Theme	Score 2007	Score 2006	Key issues for Authority attention
Financial reporting	3	2	
Financial management	2	2	<i>R2 Further strengthen financial management arrangements, including improving the links between financial planning and policing objectives.</i>
Financial standing	3	3	
Internal control	2	2	<i>R3 Continue to develop risk management within corporate business processes, including partnerships, strengthen corporate controls over key financial systems and improve compliance with internal regulations.</i>
Value for money	2	2	<i>R4 Maintain the drive to improve value for money through understanding the contextual elements of costs, identifying inefficiencies and analysing costs and performance information.</i>
Overall	2	2	

Financial position and outlook

- 30** Overall, the Authority's finances were well managed in 2006/07. The many financial challenges faced included high profile special operations as well as the continuing modernisation agenda. Against this volatile background, the Authority was able to deliver its budget, achieve savings and contribute to general reserves. Assisted by additional grant income, the application of £24m from a budget smoothing reserve and efficiency savings of over £60m, an underspend of £5.1m was achieved on total net revenue spending of some £2.9b.
- 31** Reserves remain at an adequate level and, taken together, the General Fund and Emergency Contingency Fund (£59m) amount to 2 per cent of net revenue expenditure, matching the Treasurer's assessment of the minimum level necessary to mitigate the risks of unplanned financial demand. Other earmarked reserves amounting to £75m are also maintained.

- 32 The level of reserves is reviewed annually as an important part of annual budgeting and the longer-term projection processes that underpin the medium-term financial strategy. This involves a prudent assessment of future risks, including:
- inflationary pressures within the labour market; and
 - the demanding efficiency programme.
- 33 Looking to 2007/08, the latest financial information provided to members reports that the overall position is being managed within budget, assisted by planned contributions from earmarked reserves of around £30m. The Treasurer has reported that efficiency targets are expected to be exceeded by over £50m and a small underspend is projected for the full year.
- 34 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:
- policing the continuing threat of terrorism in London;
 - preparing for the security and policing implications of the 2012 Olympics;
 - meeting the developing sustainability agenda;
 - managing the internal change programme against a background of efficiency demands; and
 - ongoing uncertainties in police grant funding levels.
- 35 Members should continue to monitor the risks around spending pressures and income shortfalls in delivering the 2007/08 budget and into the medium-to-longer term to protect the stability of the Authority's hard-won financial position.

Recommendation
R5 <i>Continue to review and protect the Authority's financial position in the context of current and future risks.</i>

Other use of resources work

- 36 Other key messages from work completed as part of our ongoing use of resources' programme are set out below.

Data quality

- 37 Last year's annual audit letter highlighted significant improvements during 2005/06 in the Authority's crime recording data (assessed as good) and crime recording arrangements (assessed as fair). The Authority has not been able to sustain the improvement in crime data quality in 2006/07. Overall crime and incident data quality has declined and is now graded as fair, although this level of performance continues to meet the Home Office standard. The deterioration in data quality, whilst marginal in some cases, applies across a broad range of crime categories.
- 38 Crime recording arrangements remain fair. Strategies and policies are in place and improvement work is being undertaken. However, there is evidence that knowledge and application of the standard varies across the Service and that supervision at Metcall Centres and Integrated Borough Operations Rooms is not consistently effective. The action plan agreed in 2006 has also not been fully implemented.
- 39 The 2006/07 review was undertaken against a challenging background that included a major restructuring of the Service's command, control and communications functions and staff movements, including high levels of recruitment of new staff. The results this year also still represent an improvement on performance in and before 2004/05. Nevertheless, the Authority and Service now need to regain the momentum achieved in 2005/06. A report that includes our detailed recommendations to support this has been agreed with officers. Following an approach from the Service, the Authority has also recently commenced a scrutiny of crime recording that will inform future improvement.

Recommendation
R6 <i>Regain the momentum on delivering improvements to crime data quality.</i>

Policing Plan 2006/07

- 40 We issued our statutory report on the Authority's 2006/07 Policing Plan on 30 November 2006. There are no matters to bring to members' attention.

Closing remarks

- 41 We have discussed and agreed this letter with the Authority's Chief Executive and Treasurer and the Service's Director of Strategic Finance. We will present the letter at the Corporate Governance Committee on 7 December 2007 and we will provide copies to all Authority members.
- 42 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Authority during the year.

Table 3 Reports issued

Report	Date of issue
Audit plan	March 2006
Audit report on the Policing Plan 2006/07	November 2006
Supplementary opinion audit planning letter	July 2007
Interim audit	July 2007
Data quality and NCRS	July 2007
Police use of resources - phase I	July 2007
Report to those charged with governance	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Certificate	September 2007
Annual audit letter	November 2007

- 43 Finally, I would like to thank the Authority and Service for their support and co-operation during the course of this year's audit.

Michael Haworth-Maden
District Auditor

28 November 2007