

Annual Audit Letter

Metropolitan Police Authority

Audit 2008/09

December 2009



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

- any member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion

- 1 The audit of the Metropolitan Police Authority's financial statements for the year ended 31 March 2009 has been completed and I gave an unqualified opinion on 30 September 2009, the statutory deadline for police authority accounts. Given that there are no outstanding questions or objections from local electors I have also issued the audit certificate and formally closed the audit of the Authority's 2008/09 accounts.

Financial statements

- 2 The main financial statements approved by the Authority in June and submitted for audit were complete in all major respects and contained no material errors. A number of adjustments were made as a consequence of the audit, but none of these were material nor affected the Authority's overall financial position.

Value for money

- 3 I issued an unqualified value for money conclusion alongside my opinion on the financial statements.

Audit fees

- 4 Table 1 shows how our audit fee is split between the core areas of our work for 2008/09. There have been no additional fees raised in respect of our work in 2008/09.

Table 1 **Audit fees**

Code area	Actual (£000)	Proposed (£000)	Variance (£000)
Financial statements and annual governance statement	361	361	0
Value for money/Use of Resources ('PURE')	122	122	0
Total audit fees	483	483	0
Non-audit work*	50	50	0
Total	533	533	0

*Note: Refers to work undertaken at the request of MPA Internal Audit on Raising Fraud Awareness. This work was delivered under our Advice and Assistance role.

Actions

- 5 My recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 6 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The financial statements and annual governance statement are an important means by which the Metropolitan Police Authority accounts for the stewardship of public funds.

- 7 I completed my work on your financial statements and annual governance statement in accordance with the required timetable and reported my findings in our Annual Governance Report to the Corporate Governance Committee in September. I gave an unqualified opinion on 30 September 2009.
- 8 In my report to the Corporate Governance Committee in September I concluded:
 - that I was generally satisfied with the quality of the financial statements presented for audit; and
 - that no material weaknesses were identified in your internal control arrangements.
- 9 Nevertheless, I made a number of recommendations to the Committee to improve the Authority's arrangements for maintaining good governance and securing value for money, the most significant being to:
 - ensure appropriate arrangements were put in place to improve compliance with basic procurement controls, in particular in respect of contract extensions or roll-overs; and
 - review the treatment of grants in 2009/10 to ensure compliance with recommended accounting practice, particularly in respect of service-specific grants.
- 10 In December the Corporate Governance Committee received a report from officers on the findings of an ongoing review of contracts which emphasises the high priority that needed to be given to improving compliance with regards to procurement. I will consider the Authority's response to the issues identified in the report in the context of my responsibilities as external auditor.
- 11 The working papers provided to support the financial statements and disclosures were of good quality, timely and finance staff responded promptly to audit enquiries. Fixed asset working papers were provided to audit in late July 2009 to allow Finance staff time to finalise the accounting for significant changes in valuations and impairments. This gave rise to a number of late amendments to the financial statements which were made after the Corporate Governance Committee meeting. The most significant was a reclassification affecting impairments of £33 million which required an adjustment between accounts but, as with the other late amendments, had no overall effect on the Authority's overall financial position.
- 12 A full summary of the issues arising with appropriate recommendations is contained in our detailed opinion audit report, currently being discussed with officers.

Value for money and police use of resources

I assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in use of resources. This is known as the Value for Money (VFM) conclusion.

I also considered how well the Authority is managing and using resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored police use of resources judgement (PURE).

Value for money conclusion

- 13** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against eight criteria specified by the Audit Commission, which align with the police use of resources key lines of enquiry (KLOE). Should a body be assessed as not achieving minimum standards in any relevant criteria (ie a score of 1), then the Value for Money (VFM) conclusion would be qualified in this respect.
- 14** The Authority was assessed as performing at or above minimum standards in each criteria and I was therefore able to issue an unqualified VFM conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Police use of resources judgements: overall assessment

- 15** In seeking to foster continuous improvement the Audit Commission introduced a more rigorous and broader based methodology for assessing a body's use of resources in 2008/09. Assessments focus on three themes as follows:
- managing finances;
 - governing the business; and
 - managing resources.
- 16** The three themes are informed by the eight detailed KLOEs and the assessment criteria are more stringent than previously, with a focus on outcomes for local communities rather than internal processes. Members should take this into account when considering relative performance between 2008/09 and previous years.
- 17** The Audit Commission assessed the Metropolitan Police Authority as achieving an overall score of 2 in 2008/09 (scoring ranges from 1 - low - to 4 -high), which equates to having arrangements that are consistent with established professional practice and guidance, which meet statutory requirements and operate effectively. The preliminary national picture for police authorities is that 17 (or 44 per cent) of authorities scored 2, while 22 (or 56 per cent) scored 3, with none scoring 1 or 4.

Value for money and police use of resources

- 18 While the score equates to that of 2007/08, the overall direction of travel for the MPA and MPS continues to be positive and substantial progress has been made to modernise corporate processes, which should provide a sound foundation to improve efficiency and effectiveness in the future.
- 19 The Authority's PURE theme scores are shown in Table 2 below and the key findings and conclusions for the three themes are summarised in the paragraphs below. A schedule of the eight KLOE scores and details of the scoring criteria are provided at Appendix 1. Our PURE report, to be issued in November 2009, contains more details on the findings from this work.

Table 2 Police use of resources theme scores

PURE themes	Scored judgement
Managing finances How effectively does the organisation manage finances to deliver value for money?	2
Governing the business How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?	2
Managing resources How well does the organisation manage its workforce to meet current and future needs and deliver value for money?	3
Overall	2

Managing finances

Use of resources assessments

- 20 Overall, the Authority and MPS meet minimum requirements in their arrangements for managing finances. This theme incorporates assessments of the following areas:
- financial management;
 - understanding costs and achieving efficiencies; and
 - financial reporting.

- 21 Financial planning continues to be a strength of the Authority and MPS, and provides a sound basis for financial stewardship during the current economic downturn. The 2008/09 budget was well managed and the Authority delivered a surplus of £32 million. Reserves are being maintained at levels commensurate with the Authority's assessment of risk, with general reserves at £70 million and earmarked at £200 million.
- 22 Capital reserves have been depleted, as has the ability to generate additional receipts within the current weak property markets. Capital expenditure plans have therefore been revised and the Authority's modernisation plans necessarily re-phased over a longer time period. The Authority is making provision for reductions in resources to fund capital in future years.
- 23 The economic downturn and banking crisis is having a very significant impact on public finances and will continue to test the Authority's financial management for some years to come. There are further challenges for policy priorities where patterns of demand for services are changing. Given these external influences and their anticipated impacts on future funding levels, the Authority should continue to keep finances under review, and in particular ensure that the reserves position is maintained commensurate with risk.

Recommendation

R1 The Authority should continue to monitor the financial position closely to ensure it retains a robust level of reserves to mitigate anticipated funding pressures and increases in demand for police services.

- 24 The circumstances of the Authority's investment of £30 million with the Icelandic bank, Landsbanki in October 2008, when the latter was nationalised, have been investigated and reported to Members. The conclusion was that while there had been no breach of the Treasury Management Strategy this potential loss could have been avoided had the banks been removed from the lending list when the former Treasurer first expressed concern about investing in the Icelandic banking sector. Since then the Treasury Management Strategy has been updated to reflect the current risk environment and communications between the MPA Treasurer and the MPS Investment Managers improved.
- 25 The £30 million investment has yet to be repaid. A co-ordinated campaign to secure creditor status for all public bodies with deposits with Landsbanki has been in progress throughout 2009, and advice received shortly before the audit opinion was given indicated that it would be prudent to recognise 83 per cent of the sum outstanding as collectable. As a result the Authority's accounts reflect that £5.1 million on deposits with Landsbanki will prove to be uncollectible.

Value for money and police use of resources

Recommendations	
R2	Members should continue to receive reports on progress on the collectability of the Landsbanki deposits.
R3	The Authority should ensure it maintains effective control of the treasury management function and monitors compliance with the Treasury Management Strategy.

- 26** The Authority and MPS achieved the government efficiency target of £144 million, and are improving their understanding of their own cost base. Given that the cost of policing in London is significantly higher than that of other 'similar forces', the current work based on benchmarking and detailed cost investigation is very important to inform future business and financial planning, and supply the Authority with the necessary information on which to make informed decisions on future priorities and efficiencies.
- 27** Reports to Members contain more examples of integrated operational and performance information, although this is not consistent in all cases. As noted above, the statements of accounts were free from material error and working papers were generally well prepared, although fixed assets were late and contained several non-material errors in 2008/09.
- 28** Key areas for the MPA and MPS to focus improvement include:
- to investigate the reasons for the high cost profile of the organisation and identify opportunities for further efficiencies;
 - to further improve the quality of reporting to members, particularly with respect to the integration of financial and operational performance;
 - ensuring the financial statements remain free from material errors, meet statutory timescales and are supported by timely and good quality working papers; and
 - ensuring the impact of the introduction of international financial reporting standards is well managed.

Governing the business

- 29** The Authority and MPS meet minimum requirements in the arrangements that govern their business. This theme combines assessments of the following areas:
- commissioning and procurement;
 - data quality;
 - governance; and
 - risk management and internal control.

- 30 The MPS demonstrates some very good and innovative procurement practices, particularly with partnerships and with respect to sustainability. However, while there has been progress, non-compliance with internal regulations continued to be evident in 2008/09. The MPS is confident that with the embedding of a stronger control framework, this weakness will be addressed.
- 31 Although robust data collection and verification are in place, overall crime data quality remains at minimum standards in a number of areas.
- 32 The governance structures have been revised to better support priorities in 2008/09 and working relationships between Members and officers are good. The MPA's strategic direction has been re-focused with the introduction of MetForward.
- 33 Risk management has been the subject of significant development in recent years, but the MPA is yet to establish satisfactory arrangements for overseeing corporate risks.
- 34 Internal control, as assessed through the work of internal audit, continues to fall below minimum standards, and securing improvements in the internal control environment should remain a high priority for the Authority. Internal audit is an effective resource which provides the Authority and MPS with a sound basis on which to improve the internal control environment.
- 35 Key areas in which the MPA and MPS should focus on improvement include:
- reducing non-compliance in procurement and demonstrating positive outcomes from recent major procurements;
 - raising crime data quality above minimum standards;
 - establishing effective scrutiny of MetForward priorities and ensure this strategic approach is integrated with that of the MPS;
 - developing corporate risk management to facilitate effective scrutiny by Members; and
 - strengthening the internal control environment.

Managing resources

- 36 The Authority and MPS exceed minimum requirements in their arrangements for managing resources. In 2008/09, the Audit Commission specified that for police forces this theme would consist of an assessment of one KLOE only: workforce planning. In future years the theme will also be informed by assessments of asset management and natural resources.
- 37 The Authority and MPS can demonstrate effective workforce planning arrangements which have contributed to the achievement of priorities. The C3i project has improved the MPS' responsiveness to increasing demands, redeployed 1,000 staff and delivered £5 million of savings per annum. Overtime has been reduced by around £20 million per annum and is within budget, and the MPS is recognised nationally for its performance in reducing sickness absence and achieving diversity objectives.

Closing remarks

- 38 I discussed and agreed this letter with leading Members, the MPA Chief Executive and Acting Treasurer, the MPS Deputy Commissioner and Director of Resources and the MPS Management Board and presented it to the Corporate Governance Committee on 10 December 2009. Copies of this letter will be provided to all members.
- 39 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

Table 3

Report	Date issued
Annual Governance Report	September 2009
Supplementary Opinion Plan	March 2009
Review of Internal Audit	June 2009
Annual Governance Report	September 2009
Opinion, Value for Money Conclusion and Certificate	September 2009
Use of Resources Report	November 2009
Risk Management - in Use of Resources report	November 2009
Procurement - in Use of Resources Report	November 2009
Opinion Audit Report	November 2009

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- 40 The Authority and MPS have taken a positive and constructive approach to our audit. I wish to thank all staff for their support and co-operation during the audit.

L J Kidner
District Auditor
16 December 2009

Appendix 1 – Police Use of Resources scores

In forming my scored PURE judgements, I have used the methodology set out in the Audit Commission's use of resources framework. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. The KLOE are generic and applicable equally to all organisations subject to use of resources judgements in order to promote consistency, demonstrating all organisations are treated in the same way, and to the same standards.

The table below shows our assessments by theme and KLOE for the Metropolitan Police Authority.

Themes (in bold) and key lines of enquiries	Score
Managing finances	2
• Planning for financial health	3
• Understanding costs and achieving efficiencies	2
• Financial reporting	2
Governing the business	2
• Commissioning and procurement	2
• Use of information	2
• Good governance	2
• Risk management and internal control	2
Managing resources	3
• Natural resources	N/A
• Strategic asset management	N/A
• Workforce planning	3

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 The Authority should continue to monitor the financial position closely to ensure it retains a robust level of reserves to mitigate anticipated funding pressures and increases in demand for police services.	3	MPA Treasurer	Agreed	MPA/MPS already review the level of revenue reserves within annual budgetary process and the monthly budget monitoring process. With regards the opportunity costs of holding reserves, a decision is made by the MPA on level of reserves held, as well as approving any changes to the level of reserves during the year. That decision is made after careful consideration of the impact of delaying revenue expenditure to fund the creation of the reserve. The draw-down of the reserve is monitored closely in the future to ensure that the funds are used as approved.	Already implemented - ongoing
9	R2 Members should continue to receive reports on progress on the collectability of the Landsbanki deposits.	2	MPA Treasurer	Agreed	Members have previously received updates on the collectability of Landsbanki deposits through various Committee reports. MPA Treasurer updates chair of F&R Committee. Treasurer also updates members of the MPA Business Management Group. In future update will be incorporated in the quarterly report to the Resources and Productivity Sub Committee.	Already implemented - ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R3 The Authority should ensure it maintains effective control of the treasury management function and monitors compliance with the Treasury Management Strategy.	3	MPA Treasurer	Agreed	MPA ensures continued compliance with TM Strategy. The treasury management function has been reviewed by both the Audit Commission and KPMG and an action plan reported to the Corporate Governance Committee. There is a daily update to the Treasurer on treasury activity undertaken that day and treasury management activity including investment decisions are reported quarterly to the Resources Sub Committee. Roles and responsibilities are fully set out and a schedule of regular review meetings established with the MPA Treasurer and MPS senior management. The review meetings are fully supported by a comprehensive monthly management report to review and monitor treasury decisions. In addition the MPA Directorate of Audit, Risk and Assurance continue to review this area and the treasury manager will regularly review investment transactions in addition to scrutinising the detail within the monthly management report.	Already implemented - ongoing

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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