

Annual Audit and Inspection Letter

Metropolitan Police Authority

INSIDE THIS LETTER

PAGES 2 - 13

- Executive summary
- Key messages
- Performance
- Accounts and governance
- Other work
- Looking forwards
- Closing remarks

PAGES 14 - 16

Appendices

- Appendix 1 – Audit and inspection reports issued
- Appendix 2 – Scope of audit
- Appendix 3 – Audit fee

Reference:	ME073 Annual Audit and Inspection Letter
Date:	December 2004

Executive summary

The purpose of this Letter

This is the District Auditor's Annual Audit Letter 2003/04 for Members. The Letter summarises the conclusions and significant issues arising from our recent audit.

For the first time, this year it also includes the results of inspection, being a summary of Her Majesty's Inspectorate of Constabulary's (HMIC's) baseline assessment of the Metropolitan Police Service (MPS). The contents of the Letter have been agreed with the HMIC. This development accords with the HMIC's and the Audit Commission's objective that we should complement each other's work and where possible, report jointly to improve our contribution to the Metropolitan Police Authority (MPA).

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit.

Appendix 3 provides information about the audit fees charged.

Key messages

Overview

The MPA, which has now been in existence for a little over four years, has through the MPS the responsibility for delivering policing services in one of the largest capital cities in the world. Given some of the inherited legacies, the complexities of current policing needs and many conflicting priorities, this was always going to be an extremely demanding task. Added to this was the clear vision of the Commissioner that he wished to see the service modernised and further improved.

In my previous Letters I have recognised that, given the unique nature of the organisation, the required changes would take time to be put into place and embedded. However, I have also stated that I would expect to see evidence of stepped improvements. This year, I have continued to notice ongoing improvements. In particular:

- the financial health position of the MPA, although still tight, is much stronger than hitherto;
- recruitment of police officers is continuing at an all time high and the number of police officers in post is more than 20 per cent higher than in 2000; and
- positive action is being taken to make the concept of community policing a reality.

I also welcome the efforts being made to strengthen the MPS' performance management systems.

While I am encouraged by progress made, I must re-emphasise that a significant amount still remains to be done to deliver to the expectations of the MPA/MPS and local stakeholders. Areas that will require ongoing attention include:

- the embedding of the culture change needed to make the C3i command and control system an effective crime management tool;
- improved and more robust performance information systems; and
- stronger community consultation processes to guide and move forward policing plans.

I am aware that action to address these matters, and many of the issues discussed in this Letter, is in hand. For our part, we will aim to support these developments through the audit and inspection processes and monitor and report, as necessary, on the progress made.

Performance

This year we have reviewed the performance of all Greater London Authority (GLA) functional bodies, including the MPA. On an overall five point categorisation system from poor to excellent, the MPA was graded as FAIR, the middle category. The review concluded that the MPA had established many of the building blocks needed to discharge its role but now requires the capacity to deliver its vision for the future and make an impact with stakeholders.

The HMIC, as part of his baseline assessment of the operational effectiveness of the MPS, has concluded that its performance was good in most areas.

Other performance reviews have identified good practice but also a need to:

- strengthen performance information systems. While the Best Value Performance Plan (BVPP) was compliant with legislative requirements, some performance indicators were unavailable and we have had to issue an 'except for' qualification on the BVPP. Our review of crime records also identified weaknesses in compliance with the National Crime Recording Standard (NCRS) and Home Office Counting Rules (HOCR). The MPS have been traffic lighted as RED in this area;
- improve the progress made in implementing activity based costing arrangements. Further work is necessary to meet National Policing Plan requirements; and
- improve the consistency with which agreed recommendations arising from the work of external review agencies, including audit and inspections, are implemented.

Accounts and governance issues

We gave an unqualified audit opinion on the 2003/04 accounts on 30 November 2004.

Overall corporate governance arrangements are satisfactory. The Authority's financial position continues to improve but spending remains volatile. Budget pressures in 2004/05 and 2005/06 will continue to require close attention. Further progress in budget monitoring and management, as well as further work to embed

good governance processes throughout the organisation, is also required.

There have been improvements in the Authority's financial systems. We can rely on the work of Internal Audit.

We identified no major weaknesses in the Authority's arrangements for ensuring the legality of its significant financial transactions.

Action needed by the Authority

Members should:

- develop and implement an improvement plan to address the matters identified in its initial performance assessment;
- continue to take steps to ensure that the forecast budget gap for 2005/06 is bridged and future spending plans matched with available resources;
- seek further improvements in budget monitoring and control arrangements in high risk areas; and
- prioritise action to ensure that timely, accurate and complete information is available to support the statutory Best Value Performance Indicators in the BVPP and meet police data quality requirements.

Performance

Initial performance assessment

The Authority was assessed as 'FAIR'.

The Audit Commission has recently undertaken an Initial Performance Assessment (IPA) of the Greater London Authority (GLA) and the functional bodies which form the GLA group. IPA is based on the same principles and methodology as the Commission's programme of Comprehensive Performance Assessment (CPA) of councils throughout England.

The Metropolitan Police Authority (MPA) is one of the functional bodies in the GLA group. Its creation represented a major change in policing in London, presenting new and more robust opportunities to hold the MPS to account for policing the capital.

The Authority has risen to this challenge and is putting appropriate building blocks into place. In overall terms, on a five point grading system from 'poor' to 'excellent', it is currently assessed as FAIR, the middle category.

The MPA has developed effective working relationships with the MPS and has a good understanding of the challenges and opportunities facing Londoners. In public, the MPA offers some degree of community leadership but struggles to assert itself against the higher profiles of the Commissioner and the Mayor.

The MPA's role in crime and disorder partnerships (CDRPs) and local consultation groups needs to be further developed. In part, this is because pressing inherited issues have been prioritised, most notably poor financial management within the MPS. Accordingly, the Authority has only recently developed and published clear priorities for itself as an organisation and how it intends to secure an effective, efficient and fair police service for London.

The Authority has built a rigorous scrutiny process to drive changes in policing and better services for victims. It sustains a clear focus on improving the MPS' performance and has developed systems and structures to address the management, staffing and operational activities of the MPS. However, the internal capacity of the Authority is weakened by inconsistent approaches to performance and human resource management.

Nevertheless, the MPA has achieved much in its short lifetime. It is making policing in London more transparent and better aligned to the diverse needs of communities. It has overseen a stronger financial infrastructure and a substantial increase in police numbers and has increased diversity in the MPS workforce. Joint planning is in line with national, regional and local requirements and the Authority is also ensuring that the MPS has the capacity to deliver its future agenda.

HMIC baseline assessment

The MPS' performance is good in most areas.

In June 2004 HMIC published its baseline assessment of MPS performance up to 31 December 2003. This report was revised in October 2004 to align more closely with the Police Performance Assessment Framework (PPAF). This represents a baseline against which the MPS' improvement will be monitored by the HMIC. Exhibit 1 presents a summary of the revised judgements.

EXHIBIT 1 BASELINE ASSESSMENT – SUMMARY OF JUDGEMENTS (REVISED OCTOBER 2004)

Performance is good in most areas graded this year

	Judgement
Citizen Focus	
Fairness and Equality	Good
Neighbourhood Policing and Community Engagement	Good
Customer Service and Accessibility	Not Graded
Professional Standards	Good
Reducing Crime	
Reducing Hate Crime and Crimes against Vulnerable Victims	Not Graded
Volume Crime Reduction	Good
Working with Crime and Disorder Reduction Partnerships to Reduce Crime	Good
Investigating Crime	
Investigating Major and Serious Crime	Not Graded
Tackling Level 2 Criminality	Not Graded
Investigating Hate Crime and Crimes against Vulnerable Victims	Not Graded
Volume Crime Investigation	Fair
Forensic Management	Fair
Criminal Justice Processes	Good
Promoting Safety	
Reassurance	Good
Reducing Anti-Social Behaviour and Promoting Public Safety	Not Graded

	Judgement
Providing Assistance	
Call Management	Fair
Providing Specialist Operational Support	Not Graded
Roads Policing	Good
Resource Use	
Human Resource Management	Good
Training and Development	Not Graded
Race and Diversity	Good
Resource Management	Fair
Science and Technology Management	Not Graded
National Intelligence Model	Not Graded
Leadership and Direction	
Leadership	Good
Strategic Management	Good
Performance Management and Continuous Improvements	Good

Source: HMIC baseline assessment (revised), October 2004

The HMIC concluded that the MPS has been successful in reducing some categories of crime but still needs to bring more offenders to justice. The Government's recruitment targets for Visible Ethnic Minority (VEM) police officers will not be met but the MPS has been more successful in recruiting VEM staff within the wider police family. There is an action plan to address these issues but the targets remain a significant challenge. The Public Service Agreement (PSA) targets have been agreed between Government departments and HM Treasury. Police forces are expected to make a significant contribution to achieving several of these targets within their annual force targets. The MPS did not meet the vehicle crime target within the timescale and is unlikely to meet the burglary and robbery targets.

The MPS is taking action to address the matters raised. The HMIC will be following up on progress made as part of the next baseline assessment.

Performance management

We have completed work under the following headings:

- the C3i project;
- activity based costing; and
- follow-up of previous reports.

The C3i project

The C3i project is making good progress and is on track to meet its completion date. There remain some risks which should be addressed.

One of the MPS's responses to the growing pressure to deliver a fast, responsive service to the public is the C3i (Command Control Communication and Information) project to replace the MPS command and control functions. It is the largest and probably the most complex programme of work the MPS has undertaken. We undertook a follow-up review of the project's progress.

The C3i project is one of the largest non-PFI schemes in Europe; the building budget alone, over £60 million, represents the equivalent of two years' expenditure by the MPA on the mainstream capital building programme. The building work is now complete. The MPS recognises that significant cultural change must now follow this major technical investment. The development of Integrated Borough Operation rooms is expected to provide this link to ensure that the organisation is driven by accurate, real-time intelligence.

The programme is being managed in a structured and organised manner in line with good practice. There are detailed procedures documented for most aspects of the project management process. Reporting lines have been established and project support is resourced. The project is on track to meet its baseline completion date in early 2006.

Nevertheless, a project of this scale involving the integration of both complex technology and major business process change is inherently high risk. To mitigate these risks we recommended to the MPS Programme Board that it should:

- accentuate the benefits (particularly the local benefits actually achieved) in its communications and monitoring work;
- build up the effort to record and transmit lessons learnt, both within the Programme and to the rest of the MPS; and
- ensure that the critical path is well-publicised to allow everyone to focus on it.

The Programme Board agreed an action plan to address these issues in October 2004. We will undertake further work on the business process changes necessary to C3i in the coming months.

Activity Based Costing

Progress has been made in implementing Activity Based Costing but further work is necessary to meet National Policing Plan requirements.

The National Policing Plan made it clear that all authorities and forces were expected to implement Activity Based Costing (ABC) in 2003/04. Once fully implemented, this is likely to guide future government funding of police forces. It should also provide useful management information for police forces.

We undertook further work on the implementation of Activity Based Costing (ABC) within the Authority, building on the results of our work in 2003. Our initial assessment of the current arrangements identified a number of issues:

- activity analysis information for 2003/04 was submitted to the Home Office in August 2004, but, due in part to software difficulties, the submission of financial information was delayed from July to mid-October. The Home Office subsequently identified errors and omissions in the MPS return, a number of which are shared with other police forces. Further work to provide a more accurate return is underway and we hope to conclude our audit soon;

- whilst systems for training, issue and return of activity cards are good, there has been insufficient documentation of the quality control checks undertaken by Activity Analysis staff and by local supervisors; and
- the MPS is at an early stage in producing activity information. Initial basic analysis has been undertaken and the results presented to Borough Senior Management Teams. On each BOCU studied, appropriate staff have also been trained in the use of the activity analysis database. However, until accurate and complete financial information is also produced the full benefits of ABC will not be realised.

Once our audit is complete, we will agree an action plan of recommendations to address these issues, and follow up progress during next year's audit.

Follow-up of previous reports

There is a need to improve the consistency with which agreed recommendations arising from the work of external review agencies, including audit and inspections, are implemented

We undertook follow-up work focused on the benefits realisation of efficiency and effectiveness reviews of transport services, forensic services and managing police overtime at the request of the MPA under Section 35 of the Audit Commission Act 1998.

Exhibit 2 summarises the conclusions of our work.

EXHIBIT 2 FOLLOW-UP

Progress is variable

Benefits realisation	<p><u>Transport Services</u></p> <p>The service is moving forward and embracing change. As far as it is able, it is also developing and delivering new methods and ideas beyond those within the original report in an attempt to improve the overall efficiency and effectiveness of Transport Services. Implementation of the original recommendations was achieved in all but one area.</p> <p><u>Forensic Services</u></p> <p>The view within Forensic Services was that the original report was 'sowing seeds on fertile ground'. The report consequently acted as a catalyst for change. The Service is moving forward, and considering new ways of working to improve efficiency and effectiveness. All of the original recommendations were implemented.</p> <p><u>Management of overtime</u></p> <p>In March 2003 <i>Guidelines for Managing Police Overtime Effectively</i> were distributed across the MPS. This guidance has yet to be universally implemented across the MPS. In addition, the MPS has substantial historic activity and cost data which is not fully utilised in the budget setting process. The overtime budget has been consistently overspent (see our comments later in this Letter). There remain a number of recommendations to be implemented</p>
----------------------	--

We have also commenced a follow-up review of our previous work on information management and technology. We propose to report the results early in the New Year. We will also continue to work with the Authority to ensure that the full benefits of audit and inspection are realised.

Performance information

While the Best Value Performance Plan (BVPP) was compliant with legislative requirements, some performance indicators were unavailable and we have had to issue an 'except for' qualification on the BVPP. Our review of crime records also identified weaknesses in the quality of data and the arrangements for producing them. The MPS has been traffic lighted as RED in this area.

We reviewed:

- the Best Value Performance Plan; and
- crime recording.

Best Value Performance Plan

The Best Value Performance Plan (BVPP) was compliant with the legislative requirements, except for the quality of the performance information contained within it. For this reason, once again we issued an 'except for' qualification on the BVPP.

There were notable improvements in the Authority's coordination arrangements for the production of the best value performance indicators (BVPIs), and the working papers submitted to us were, on the whole, of a good standard. However, this did not result in a significantly higher quality of published performance information. While recognising that the Authority relied upon Home Office data for one indicator we 'reserved', ie qualified, our opinion on 5 of the 19 BVPIs in the BVPP.

We have commented before on the need to improve the arrangements for producing performance information. Members should prioritise action to ensure that timely, accurate and complete information is available to support the statutory BVPIs in the BVPP.

Crime recording

We undertook further work this year on the MPS' arrangements to comply with aspects of the National Crime Recording Standard (NCRS) and Home Office Counting Rules (HCOR), using the methodology developed by the Police Standards Unit. This included consideration of whether incident and crime records contained appropriate information to support the decisions made on whether an incident was a crime or not. The review also provided an assessment, using traffic lights, of the implementation of NCRS and HOCR at each Borough Operational Command Unit (BOCU) in the MPS.

Our overall assessment of the MPS this year was 'RED', a movement downwards from last year's 'AMBER' assessment. As a large and complex organisation, it is inevitable that major policy change such as NCRS would take time to have a significant impact on day to day policing. Major investments are being made in new systems and business processes such as C3i, which are likely to change significantly the MPS' approach to incident and crime recording. The roll out of C3i is planned to begin this year. The focus of the MPS has therefore been to integrate NCRS into the new C3i arrangements, rather than invest significant specialist resource into existing NCRS arrangements.

The MPA takes its role in scrutinising and challenging the MPS on NCRS performances seriously. While there is evidence of challenge, the MPA has yet to successfully influence the MPS' approach and performance in dealing with incident and crime reporting.

The BOCUs generally performed better in terms of incident and crime recording when dealing with priority crimes but overall, levels of compliance with the NCRS were still relatively low, due to:

- insufficient information or detail on incident logs and crime records to support decisions that an incident was not a crime; and
- breaches of NCRS principles in recording crime.

Corporately, the MPS has taken action in response to the recommendations made in the Year 1 audit. Much of this response, as discussed above, has been focused on developing C3i, which has yet to be implemented. Consequently, there has been little improvement since last year in key areas, eg training, routine compliance audit procedures and the consistent application of MPS policies. There remain some key issues that the MPS has yet to successfully address, including:

- prioritisation of NCRS versus other key priorities;
- staff knowledge and understanding of NCRS/HOCR;
- improvements to incident and crime reporting processes; and
- consistent user focus in service delivery.

Our report includes an action plan to address these issues. We will monitor the implementation of recommendations during next year's audit.

Accounts and governance

Audit of 2003/04 accounts

We gave an unqualified opinion on the Authority's accounts on 30 November 2004.

Overall, the quality and timeliness of the draft accounts improved again this year. Draft accounts were produced on 28 June 2004 and after comments and some revision, were made available for audit on 27 July 2004. The draft statement of accounts was approved by Members on 29 July, well ahead of the statutory deadline of 31 August 2004. This timetable, if met again next year, will achieve the earlier deadlines planned for the 2004/05 accounts. Working papers and the application of Statement of Recommended Practice (SORP) guidance showed notable improvement, although we agreed some significant amendments to the draft accounts during the audit.

The full implementation of Financial Reporting Standard (FRS) 17 in the accounts resulted in some material changes to the balance sheet in comparison to last year. In particular, the requirement to recognise the net pensions liability of £9.3 billion reduced the Authority's real net worth of £1.8 billion in 2002/03 to a reported net liability of £7.5 billion. However, statutory arrangements for funding mean that the financial position of the Authority remains largely unaffected as finance is only required to be raised to cover police pensions when the pensions are actually paid. The MPA has prudently set aside an earmarked pensions reserve totalling £45.5 million to meet this ongoing need.

We gave an unqualified opinion on 30 November 2004. With the Treasurer's agreement, a number of amendments were made to the draft accounts, including:

- writing back aged creditor balances of £3 million into the revenue account; and
- amendments to several statements to achieve consistency in the disclosure of capital financing and working capital transactions throughout the accounts.

Timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the 2003/04 accounts were prepared to meet the requirements this year, the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year. We will continue to support you with these developments by drawing on good practice from elsewhere.

Report to those with responsibility for governance in the Authority

We are required by professional standards to report to those charged with governance (in this case the Corporate Governance Committee) certain matters before we give an opinion on the financial statements.

We did not identify any adjustments to the accounts, other than trifling matters, that were not adjusted within the accounts. Consequently, there were no matters requiring Members' attention.

Financial standing

The Authority's financial position continues to improve but spending remains volatile. Budget pressures in 2004/05 and 2005/06 will continue to require close attention. Further progress in budget monitoring and management is also required.

General fund spending and balances

The Authority spent to its budget of £2,412 million in 2003/04. This balanced outturn masked some significant over and underspendings on budget heads. Overspends included £13.8 million in police officer overtime and £5.6 million in police staff overtime. These were compensated by underspends of £6.5 million in police officer pay and £18.1 million in police staff pay, and a net underspend on police officer pensions of £27.7 million.

This kind of volatility in spend has been a feature for a number of years, and inevitably presents risks to the Authority's financial stability. Police officer overtime, in particular, has proved difficult to control. The MPS's Overtime Steering Group is undertaking further work to improve forecasting for overtime and we will consider the impact of this in the coming year.

Within its overall spend, the Authority made significant contributions to its reserves, including £33.1 million to earmarked reserves and £4.1 million to the general reserve. At £28.2 million, the general reserve continues to represent little more than 1 per cent of net revenue expenditure, the minimum necessary in the view of the Treasurer. Members should continue to heed this advice in their budget making decisions.

The latest projections for 2004/05 at October 2004 show an overspend of £2.5 million. Once again, police officer overtime at £14.1 million is among the major overspending budget heads. The Business group supplies and services overspend, at £11.6 million, is also significant. These are mitigated by projected underspends on police officer pay (£6.7 million) and police staff pay (£6.6 million), and a favourable variance of £22.9 million on the police officer pensions budget. Concerted efforts are being made to bring the overspending heads back into line with budgets.

Financial planning for 2005/06 and beyond is well advanced, and it is clear that difficult decisions will once again be necessary. The Authority, in advising the Mayor, will have to balance a number of priorities:

- maintaining policing resources to meet the continuing demands on the service;
- legitimate aspirations to further develop neighbourhood policing;
- enhanced requirements for efficiency savings; and
- the need to limit the precept increase, especially in the context of potential capping by the Government.

Members will need to be vigilant to ensure improvements in budget monitoring and management, and to balance future spending plans with the resources available. In doing so, it will also be important to improve the alignment between service and financial planning.

Systems of internal financial control

There have been improvements in the Authority's financial systems. We can rely on the work of internal audit.

We noted improvements in the design and operation of the Authority's financial systems. In particular, there have been significant improvements in the budgetary control systems in place within the MPA/MPS to provide:

- a structured and internally consistent approach to budget setting;
- generally timely returns of revenue budget monitoring information to Corporate Finance;
- monitoring of the efficiency plan by Members; and
- continued use of financial modelling to inform budget setting.

The work of Internal Audit complies with the relevant professional standards (the CIPFA Internal Audit Codes of Practice). Where appropriate, we are able to rely on its work for the purposes of our audit.

Internal Audit has, in the past, suffered from high staff turnover. Coupled with the need to divert resources to high risk reactive work, this has regularly resulted in slippage in the completion of audit plans. However, recent trends suggest that Internal Audit is beginning to address these issues. We understand that 90 per cent of the 2003/04 Internal Audit plan was completed by 31 March 2004.

Internal Audit has recently implemented more formal follow up arrangements for ensuring that audit recommendations are implemented. Progress is now being reported to the Audit Panel. We welcome this development.

Standards of financial conduct and the prevention and detection of fraud and corruption

The Authority has begun to establish arrangements to ensure good governance, although further work will be necessary to embed the processes throughout the organisation.

We undertook a review of the Authority's arrangements to comply with the ethical governance framework and Part III of the Local Government Act 2000. The results were broadly positive. The MPA has established a Standards Committee in line with the requirements of the Act. Independent Members were appointed following an open and transparent appointments process. All Members signed the code of conduct and a register of interests has been established.

The Standards Committee meets reasonably regularly and has full agendas when it does. However, activity in respect of raising standards and promoting good conduct has been confined within this committee so far. The challenge now is to ensure that this activity is shared with Members across the Authority, and employees. There is a commitment to undertake a baseline assessment of standards and understanding, and it is important that this takes place in order that resources can be focused where the need is greatest.

Some consideration has been given to how the Committee should approach any investigations referred to it by the Standards Board. This is positive, but it is important that formal procedures are introduced, and that the terms of reference of the committee are expanded to include this. Consideration also needs to be given to the role of the monitoring officer in any investigation so that potential conflicts of interest are avoided. Officers are currently addressing these matters.

Legality of transactions

We identified no major weaknesses in the Authority's arrangements.

We have not identified any major weaknesses in the Authority's framework for ensuring the legality of its significant financial transactions.

We have dealt with a number of questions from members of the public exercising their rights under Section 15 of the Audit Commission Act 1998. Several of these have a common thread, being concerned with the Authority's arrangements for performance management and monitoring of local police consultative groups. These groups are independent of the Authority, but receive MPA funding. We have discussed these matters with the Treasurer, and there is no evidence at the present time to suggest the need for formal action by the District Auditor. Nevertheless, Members should satisfy themselves that the current arrangements, and any future proposals, provide proper accountability for the grant funding of such groups.

The MPA/MPS also have to develop arrangements in response to the Freedom of Information legislation, and to the Bichard enquiry. We propose to review the progress made at the next audit.

Other work

Grant claims

The Authority submitted sixteen grant claims for audit, with a combined value in excess of £115 million, in 2002/03. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the Authority's control environment.

We have worked with the Authority to secure improvements in the arrangements for managing and quality assuring grant claims submitted for audit. In particular, we have provided details of a best practice process for the completion and co-ordination of grant claims, including:

- identifying a named officer tasked with implementing a full project management and quality control process around grant claim monitoring and submission; and
- ensuring that adequate guidance and training is provided to local finance officers to maintain appropriate records and accurately compile grant claims.

We will assess the impact of this on the Authority's arrangements for producing the 2003/04 grant claims, which are currently being audited.

National Fraud Initiative

The MPA took part in the Audit Commission's National Fraud Initiative (NFI) in 2002. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total national savings from the 2002 exercise exceeded £83 million. Internal Audit play a key role in following up any issues arising from the NFI at the Authority.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by local authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forwards

Future audit and inspection work

We have an agreed plan for 2004/05 and have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work is included on the Audit Commission website.

We have sought to ensure, wherever possible, that our work relates to the risks and improvement priorities of the Authority. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your risks and improvement priorities and develop an agreed programme by 31 March 2005. We will also continue to work closely with HMIC to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focusing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit Plan for 2005/06.

Closing remarks

This Letter has been discussed and agreed with the Clerk, Treasurer and Chairman of the MPA and the MPS Senior Management Team. A copy of the Letter was also presented to the Corporate Governance Committee on 2 December 2004.

This is my last Annual Audit Letter as your District Auditor. I will be succeeded from the 2004/05 audit by my colleague, Mike Haworth-Maden. The Authority has taken a positive and constructive approach to our audit in the past four years. I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation during the period of my appointment.

Availability of this Letter

This Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Authority's website.



Kash Pandya
District Auditor
17 December 2004

Status of our reports to the Authority

Our Annual Audit and Inspection Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to Members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any Member or officer in their individual capacity, or to any third party.

Audit and inspection reports issued

Report	Date issued
Setting High Ethical Standards	February 2004
Interim Audit Report - 2003/04 Accounts Audit	March 2004
MPS Benefits Realisation	April 2004
Corporate and Financial Planning	May 2004
HMIC Baseline Assessment	June 2004
Audit Plan 2004/05	June 2004
Information Governance	August 2004
Overview of Risk Management Arrangements	August 2004
The C31 Project	October 2004
HMIC Baseline Assessment (revised)	October 2004
Review of Crime Recording 2004	November 2004
Activity Based Costing	November 2004
Audit Opinion	November 2004
Best Value Performance Indicators Report	November 2004
Initial Performance Assessment	December 2004
Opinion on The Best Value Performance Plan	December 2004

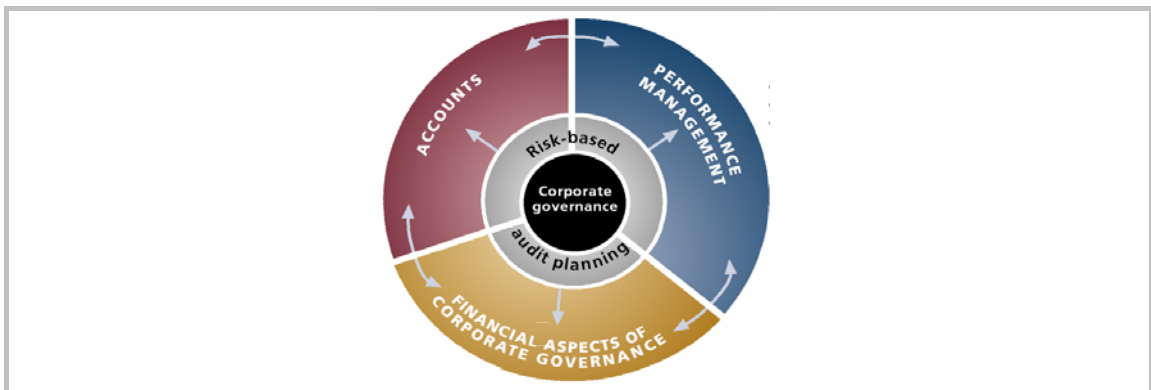
Scope of audit

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 3.

EXHIBIT 3 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit fee

Audit fee update 2002/2004

Audit area	Plan 2002/2004 (£)	Actual 2002/2004 (£)
Accounts	425,000	400,000
Financial aspects of corporate governance	299,000	299,000
Performance	344,000	344,000
TOTAL CODE OF AUDIT PRACTICE FEE	1,068,000	1,043,000
Grant claim certification*	48,000	48,000
Additional voluntary work (under Section 35)**	-	23,800

* *Grant Claim certification is charged on a per diem basis.*

** *Additional voluntary work was agreed with the MPA under Section 35 of the Audit Commission Act 1998.*

The audit fee covered our proposed programme of work for both the 2002/03 and 2003/04 financial years, reflecting the Audit Commission's change to match our audit year to the April to March financial year.