

Annual Audit Letter

December 2005



# Annual Audit Letter

**Metropolitan Police Authority**

**Audit 2004-2005**

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# Key messages

## Background to the audit

- 1 2005 has been a unique year for the Metropolitan Police Authority (MPA) and the Metropolitan Police Service (MPS). In previous letters, we have commented on the scale of the challenges faced in policing London and, at the same time, improving and modernising service provision. This year, such observations are even more pertinent.
- 2 The new Commissioner has committed the MPS to a programme of organisational development, designed to shape the long-term future of the service. New strategic priorities and outcomes are being articulated through the corporate strategy. The Service Review and *Together*, unified in the Modernisation Programme, underpin the strategy and address the major tasks of identifying the structural and cultural changes that will be necessary to deliver corporate priorities.
- 3 This drive for organisational change has taken place amid unprecedented operational demands. In December 2004, the MPS responded to the Asian Tsunami disaster, co-ordinating the UK police response on behalf of the Foreign Office. The roll-out of Safer Neighbourhoods, championed by the Commissioner and the MPA, accelerated to 160 London wards during spring 2005. Most significantly, the MPS undertook the largest and most complex enquiry in its history in response to the London bombings in July 2005.
- 4 This letter reports the results of our work against this challenging background. Progress has been encouraging, not least in developing the links between the corporate strategy and financial planning, the increasing focus on data quality to support operational policing and the strengthened internal capacity of the MPA. Some significant challenges remain, however, and there are aspects of performance that will continue to require attention if the ambitions of the MPA and the MPS are to be realised:
  - the provision of better quality data, and its more effective use, remains key to the modernisation programme; and
  - the MPA's hard-won financial stability could be threatened by unplanned financial demands.
- 5 Action is in hand to address these issues, and a number of others discussed in this Letter. We will use our independent audit to continue to support the MPA and MPS by identifying further improvement opportunities and by monitoring and reporting progress.

## Performance

- 6 The MPA is committed to addressing the issues identified in the Initial Performance Assessment (IPA) report. A comprehensive organisational development programme is being established and key internal processes are being strengthened.
- 7 Her Majesty's Inspectorate of Constabulary (HMIC)'s baseline assessment of the MPS concluded that performance was good or better in most areas.
- 8 Risk management arrangements have been enhanced during 2005. The quality of published performance information has also improved this year. We have issued an unqualified auditor's report on the 2005/06 best value performance plan.

## Accounts and governance

- 9 We gave an unqualified audit opinion on the 2004/05 accounts on 31 October 2005. The timeliness of the accounts' production improved again this year. Looking to 2005/06, the accounting arrangements for fixed assets and capital financing remain in need of improvement.
- 10 The overall financial position remained stable in 2004/05. Spending remains volatile on some budget lines, although the MPA managed this successfully to deliver a balanced outturn. Financial pressures continue to build in 2005/06 and for future years. The costs of counter terrorism operations in the wake of the London bombings in July present a serious risk to financial stability.
- 11 The Director of Internal Audit, in his annual report, has commented on the reduced assurance about the adequacy and effectiveness of some aspects of internal financial control. Action is being taken to address this.

## Action needed by the MPA

- 12 Members should:
  - continue to prioritise improvement action in response to the IPA;
  - consider further action to improve control over setting and monitoring volatile budgets; and
  - monitor the success of action taken to re-establish the ongoing improvement in internal financial control achieved in previous years.

## Performance

### Initial Performance Assessment

- 13 In last year's letter, we reported the outcome of the Audit Commission's Initial Performance Assessment (IPA) of the GLA group, including the MPA. That assessment concluded that the MPA had established many of the building blocks needed to discharge its role, but needed to enhance its capacity in order to deliver its vision for the future and make an impact with stakeholders. This year, we have followed up our work to assess progress in response to the issues identified in the IPA report.
- 14 We have concluded that the MPA is taking forward the issues identified in the report appropriately. A comprehensive organisational development programme is being established, although its overall scale is likely to take at least two to three years to implement fully. Key internal processes have been strengthened, including performance management. In particular, the MPA has taken steps to strengthen its scrutiny and review programme. The annual workplan is dynamic, and comprehensive.
- 15 A review of corporate strategy is underway, incorporating the key themes arising from the major organisational development programme. The range of workplans that are being developed to support the implementation of the corporate strategy are based on a measurable approach which should improve the consistency of performance management and monitoring of progress.
- 16 There are sound working relationships between the MPA and MPS, and MPA challenge mechanisms are developing in some key areas of MPS operations, in particular in relation to action planning, data and performance management. The MPA continues to struggle to assert itself against the higher profiles of the Commissioner and the Mayor, although members have enhanced the MPA's profile in key partnerships during 2005, and in the national and local media.
- 17 The development of a community engagement strategy is well advanced. It aims to assist the MPS to improve its approach to community engagement through closer performance monitoring. Appropriate linkage to the crime and disorder partnerships (CDRPs) is being made.

### HMIC's baseline performance assessment

- 18 HMIC published the 2005 baseline assessment in October 2005, measuring the MPS' performance in 2004/05 and its progress since the initial baseline assessment published in June 2004. The summary results are combined with forces' results against statutory performance indicators (SPIs) to produce a combined assessment for each of the seven domains in the Police Performance Assessment Framework (PPAF). Table 1 presents the summary of judgements.

**Table 1 2005 Baseline Assessment Summary of Judgements**

Performance was good or better in most areas, with a positive direction of travel

| Summary of Judgements  | Grade  | Direction of Travel  |
|--|--|--|
| <b>1 Citizen Focus</b><br>1A Fairness and Equality<br>1B Neighbourhood Policing and Community Engagement<br>1C Customer Service and Accessibility<br>1D Professional Standards   | Fair<br>Good<br>Fair<br>N/A                            | N/A <sup>1</sup><br>Improved<br>Stable<br>N/A              |
| <b>2 Reducing Crime</b><br>2A Reducing Hate Crime and Crimes against Vulnerable Victims<br>2B Volume Crime Reduction<br>2C Working with Partners to Reduce Crime   | Good<br>Poor<br>Good                                   | Improved<br>Improved<br>Improved                           |
| <b>3 Investigating Crime</b><br>3A Investigating Major and Serious Crime<br>3B Tackling Level 2 Criminality<br>3C Investigating Hate Crime and Crimes against Vulnerable Victims<br>3D Volume Crime Investigation<br>3E Forensic Management<br>3F Criminal Justice Processes | Excellent<br>Excellent<br>Good<br>Poor<br>Fair<br>Fair | N/A<br>N/A<br>Improved<br>Improved<br>Improved<br>Improved |
| <b>4 Promoting Safety</b><br>4A Reassurance<br>4B Reducing Anti-Social Behaviour and Promoting Public Safety   | Fair<br>Fair   | Improved<br>Improved                                       |
| <b>5 Providing Assistance</b><br>5A Call Management<br>5B Providing Specialist Operational Support<br>5C Roads Policing  | Fair<br>Good<br>Excellent                              | Improved<br>Improved<br>Improved                           |

<sup>1</sup> N/A is 'Not Graded'



| Summary of Judgements                                | Grade | Direction of Travel |
|--|-------|---------------------|
| <b>6 Resource Use</b>                                |       |                     |
| 6A Human Resource Management                         | Good  | Improved            |
| 6B Training and Development                          | Fair  | Improving           |
| 6C Race and Diversity                                | Fair  | N/A                 |
| 6D Resource Management                               | Good  | Improved            |
| 6E Science and Technology Management                 | Good  | Improved            |
| 6F National Intelligence Model                       | Good  | Improved            |
| <b>7 Leadership and Direction</b>                    |       |                     |
| 7A Leadership  | Good  | N/A                 |
| 7B Strategic Management                              | Good  | Improved            |
| 7C Performance Management and Continuous Improvement | Fair  | Improved            |

*Source: HMIC baseline assessment, October 2005*

- 19** HMIC concluded that the last year (2004/05) was a successful one for the MPS, with crime down in many categories and detections up. The MPS has been successful in creating political ownership of a strategy for growth and further change. There is a desire to deliver neighbourhood problem-solving policing in partnership and this is an intended outcome of the Step Change project and ward-based policing. The deployment of Safer Neighbourhood Teams has produced a stunning step change in service delivery in those wards adopted. Safer Neighbourhood wards are showing higher levels of crime reduction and detection, together with higher public satisfaction, than wards yet to be adopted. This is also occurring in the most challenging wards. The MPS now has a style of policing that is increasingly meeting community expectations and this bodes well for the future.
- 20** HMIC identified that the government's recruitment targets for black and minority ethnic (BME) police officers will not be met, but the MPS has been more successful in recruiting BME staff within the wider police family. There is an action plan to improve BME recruitment, but the targets remain a significant challenge.
- 21** The MPS has acknowledged those areas of performance where further improvement is necessary, and is implementing programmes to deliver this improvement. HMIC will follow up progress during next year's inspection programme.

## Partnerships

- 22 The MPS is an active partner in a wide range of partnerships. It is committed to working effectively with its partners, in particular in the field of crime reduction. A number of studies have been carried out in this important area, including MPA scrutiny reports on CDRPs, Community/Police Consultative Groups and community engagement, and our initial review of partnerships in 2003.
- 23 We followed up our 2003 review, drawing also on the MPA's work, with a focus on identifying what improvements have been delivered in response to previous recommendations and how the MPA and MPS are developing the role of local partnerships.
- 24 The MPA and MPS are implementing the recommendations arising from the scrutiny report on CDRPs and are making significant efforts to develop community engagement and partnership working. The Service Review instituted by the new Commissioner also includes major themes of partnership working and citizen focus.
- 25 In the midst of this activity, we identified some emerging issues for the MPA and the MPS to consider:
- there is potential for duplication of activity, due to the complexity of current organisational arrangements to address partnership and community engagement;
  - Borough Commanders are pivotal in delivering successful partnerships, yet performance targets are focused on reducing priority crimes. The extent to which performance targets for senior borough personnel reflect the strategic commitment to partnership working should be assessed;
  - additional capacity may be necessary to analyse issues and monitor improvement plans, and to develop further the skills of senior staff and members to address the increasing complexity of partnership working; and
  - the 'Building Communities, Beating Crime' White Paper, the review of Criminal Justice Inspectorates and government and parliamentary reviews of CDRPs have significant implications for the future of partnerships and community engagement.
- 26 We have discussed our findings with officers of the MPA and the MPS, and agreed recommendations for action. We will consider further the developing partnership agenda during our ongoing audit.

## Risk management

- 27 Risk management is the process of identifying significant risks to the achievement of an organisation's strategic and operational objectives, evaluating their potential consequences and determining and implementing the best way of controlling and monitoring them. Effective risk management should be integral to the corporate management arrangements of an organisation.

- 28 We followed up our 2003 review of risk management to assess the progress being made by the MPA and MPS in response to the agreed action plan. Overall, the results were positive.
- 29 In July 2004, the MPA adopted a corporate risk management strategy. A prioritised programme designed to address corporate risks has been developed to manage the risks identified. There is demonstrable ownership of risks at a senior level: responsibility for managing business continuity risks has been allocated by the MPS' Management Board to relevant senior personnel. Risk management is a standing item on the Management Board meeting agenda, and forms a regular part of management meetings within business groups and Borough Operational Command Units (BOCUs). The Corporate Governance Committee takes an active role in monitoring progress, receiving quarterly reports from the Director of Risk Management.
- 30 The Risk Management Unit is now fully established and work is underway to support the development and review of risk registers within the BOCUs. A programme of training and support is available to assist business groups and BOCUs to address risk profiling; review risk registers and raise awareness amongst staff. The MPS also plans to include risk management in the competency framework processes.
- 31 Nevertheless, there is more to do. Whilst business groups have generally developed their risk registers, currently only 30 per cent of the BOCUs have done so. Risk management and business planning systems still operate largely independently of each other, and work is ongoing to ensure that these systems are integrated. Much is planned in terms of training and support programmes, but is largely still to be rolled out. The MPS needs to evaluate the impact of these plans as part of its overall risk management approach. In common with other organisations, instilling a culture of risk awareness across the MPS is likely to be a key challenge.
- 32 We agreed our findings with senior officers in the MPS, and we will continue to review progress in this important area during the coming year.

## Performance information

### Best value performance plan

- 33 We issued an unqualified report on the best value performance plan (BVPP) on 30 November 2005. This was a significant achievement for the MPA and MPS.
- 34 There were improvements in the quality of performance information contained within the BVPP. The MPS' arrangements for collating information and providing responses to queries demonstrated better co-ordination, improved supporting documents and greater accuracy in the SPIs submitted for audit. This improvement in the process is reflected in the reduction in the number of SPIs reserved (ie qualified) at audit.

- 35 In previous years, the number of audit reservations has been significant enough to warrant a qualified report on the BVPP. This year, we reserved our opinion on only one SPI (SPI 11a, 'The amount of Police Officer Time Available for Frontline Policing'), due to weaknesses in the MPS' 2004/05 activity data identified during our audit of Activity Based Costing, reported in last year's letter.
- 36 We commend the progress made. The challenge now is to maintain the improvements in the quality of SPIs achieved this year, and to address the remaining issues affecting SPI 11a. We will review the MPS' progress next year.

### **Crime recording**

- 37 The importance of high-quality information to support policing in London is now recognised as a strategic priority. Achieving compliance with the National Crime Recording Standard (NCRS) is a key building block in the MPS' modernisation programme. In the longer-term, the Service Review has identified a centralised crime recording bureau as the answer, but short-term solutions are also necessary to improve the position. Consequently, the MPS has undertaken work in response to our review of arrangements to comply with aspects of NCRS and Home Office Counting Rules which we reported in last year's Letter.
- 38 A review of systems and processes within Crime Management Units was undertaken in September 2005 by MPS personnel, supported by Audit Commission auditors, designed to map the process of crime recording and enable the construction of a detailed action plan to improve data quality and achieve NCRS compliance. The aim is to begin implementing action to improve compliance before we commence our Year 3 review of NCRS arrangements.
- 39 We welcome this endeavour. However, the scale of the required improvement - and the short timescales over which that improvement needs to at least begin to be delivered - present a significant challenge to the MPS. Continued support from senior MPS management and the MPA is therefore essential in order to maintain the momentum.
- 40 While we will start our follow-up review in December 2005, we have agreed to delay some key aspects of our work until spring 2006 to allow the MPS to embed improvements. Our work will provide an independent assessment of the success of the MPS' approach. We will report our findings next year.

## Accounts and governance

### Audit of 2004/05 accounts

- 41 We gave an unqualified opinion on the MPA's accounts on 31 October 2005.

#### Matters arising from the final accounts audit

- 42 The published accounts are an essential means by which the MPA reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The timeliness of the accounts' production improved again this year. Members approved the annual accounts on 11 July, some three weeks ahead of the statutory deadline of 31 July 2005.
- 43 While the quality of working papers and the application of Statement of Recommended Practice (SORP) guidance were maintained from last year, further improvements are necessary to achieve the standards that the MPA and MPS aspire to. In particular, the accounting arrangements for fixed assets and capital financing remain in need of improvement. These arrangements will be a key focus of our 2005/06 opinion audit.
- 44 A number of amendments were made to the 2004/05 accounts with the Treasurer's agreement. Several were of a material nature, although there was no net impact on the reported surplus for the year:
- amendments to Note 1 to the balance sheet, fixed assets, with a net effect of £33 million;
  - an amendment of £16 million from fixed assets to revenue to reflect the termination payment on Wellington House; and
  - an amendment of £20 million from creditors to reserves to correct the treatment of a contract compensation payment.
- 45 In last year's letter, we emphasised that 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. The accounts were again prepared to meet the advanced deadline. Nevertheless, the deadlines will be advanced again next year and will, once again, require early planning and thoughtful scheduling of key meetings.

#### Report to those with responsibility for governance in the MPA

- 46 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.
- 47 There were no matters that we were required to bring to members' attention. In particular, we did not identify any necessary adjustments to the accounts, other than trifling matters, that were not adjusted within the accounts.

## Financial standing

### Revenue spending and balances

- 48 Net revenue spending was £2,607 million in 2004/05, £39 million over the original budget due largely to the costs of counter terrorism operations, the Athens Olympics and the Tsunami relief operation (Operation Bracknell). These costs were met from additional government grant, and the MPA recorded a small overall surplus for the year of £241,000.
- 49 Once again, financial pressures were managed successfully to deliver a balanced outturn. There was considerable volatility in spend within some budgets. Significant underspends on police officer and police staff pay (net £37.5 million) and police pensions (£26.9 million) were offset by overspends elsewhere, in particular on police officer overtime (£16.1 million), transport costs (£12.1 million) and DNA testing (£6.6 million). Monthly monitoring reports have been presented to members during the year, and members have received a report from officers setting out in detail the 2004/05 financial outturn.
- 50 The overspend on police officer overtime has been a consistent feature of financial performance, and we have commented before on the potential financial risks that this situation presents. We recognise the considerable work already undertaken to address the issue, within the Service Review, by Internal Audit and by members themselves. Nevertheless, members should once again review the position and consider further action to improve control over setting and monitoring such volatile budgets.
- 51 Spending included a number of significant contributions to specific reserves in 2004/05 to finance future high priority developments, to a total of £12.8 million. A further £22 million contribution was made to the budget resilience reserve to mitigate future spending pressures. The general revenue balance increased to £28.4 million, slightly more than 1 per cent of net budgeted expenditure. This remains the minimum necessary, in the Treasurer's view, to protect the MPA against unplanned financial demands.
- 52 Such unplanned demands are a feature of spending so far in 2005/06, as most recently reported to members in November 2005. The events of July 2005 and the ongoing counter terrorism operation (Operation Theseus) are forecast to cost more than £53 million. The Home Office has made an interim payment of £10 million to the MPA, but has also indicated that the MPA will be expected to meet some of these additional costs from its reserves, possibly up to 1 per cent (£27 million) of net expenditure. If so, in the light of the current level of general reserves, the MPA's overall financial position could be threatened.



- 53 Excluding Operation Theseus, and further costs associated with Operation Bracknell, the Treasurer is currently forecasting a net underspend of £31 million for 2005/06, due largely to a £28.3 million underspend on police officer pensions. Within this forecast, significant overspends on police officer overtime (£10.9 million) and transport costs (£10.2 million) feature once again. The final outturn will, of course, depend upon the eventual settlement reached with the Home Office for the costs of Theseus, but members plan to achieve a managed underspend at 31 March 2006 to help protect the financial position.
- 54 Financial planning for 2006/07 has identified a series of budget pressures. Members have received several reports outlining various priorities, including:
- protecting the capital against further acts of terrorism;
  - the planned roll-out of the Safer Neighbourhood Teams across London;
  - new initiatives to address corporate priorities and activities arising from the new corporate strategy and the Service Review; and
  - meeting the Mayor's requirement to submit a balanced budget contained within a 5.5 per cent precept increase.
- 55 Members will need to take some hard decisions to balance these spending priorities within the resources available. The Treasurer's advice will be crucial to members' decision-making.

### **Pensions fund**

- 56 The MPA recognised a net pensions liability of £12.5 billion in the balance sheet at 31 March 2005, increased from £9.4 billion at 31 March 2004. Proposed statutory changes to funding police officer pensions, planned for April 2006, could place financial pressure on the MPA's resources. Officers continue discussions with the Home Office to ensure that the MPA is not disadvantaged by the change, and a specific reserve of £23.5 million provides some comfort against potential future costs.

## **Systems of internal financial control**

- 57 We noted an increased level of key controls within material financial systems (such as main accounting, payroll, creditor payments, etc) operating satisfactorily to support the production of the annual accounts, although controls over the recording of IT assets continue to require improvement.
- 58 The wider picture of internal financial control in respect of non-material financial systems across the MPS is, however, less reassuring. The Director of Internal Audit, in his annual report, has commented on the reduced assurance about the adequacy and effectiveness of internal financial control in these areas. Improvements in the previous three years have not been sustained and the overall level of control is not yet at an acceptable standard. These and a number of other matters were reflected in the 2004/05 Statement on Internal Control.

- 59 The MPA and MPS recognise that this is not satisfactory. Action plans designed to achieve improvements are in place. Members should monitor the success of action taken to re-establish the ongoing improvement in internal financial control achieved in previous years.

### **Internal Audit**

- 60 We completed our triennial review of internal audit. Overall, internal audit meets professional standards and provides an effective service to the MPA and MPS. We have placed reliance, where appropriate, on its work. We identified some issues to address with regard to audit documentation, linked to the introduction of an IT-based audit recording system. We discussed these matters with the Director of Internal Audit, and action has been taken in response.

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

- 61 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.
- 62 Our work this year included a review of the activities of the Forensic Audit Branch of internal audit. The results were generally satisfactory. We found evidence of a thorough and professional approach to investigations, involving collaboration with the Directorate of Professional Standards where necessary. Good outcomes have also been achieved. The Director of Internal Audit has reported savings of more than £1 million as a result of forensic audit activity, and recoveries of monies improperly obtained from the MPA in excess of £0.5 million in 2004/05.
- 63 We also undertook a review of fees and sponsorship income. There were no significant issues for members' attention.

## **Legality of transactions**

- 64 We have not identified any significant weaknesses in the framework established by the Authority for ensuring the legality of its significant financial transactions.
- 65 We followed up our 2003 review of the MPA's arrangements to comply with the ethical governance framework and Part III of the Local Government Act 2000, with the focus upon how effectively our recommendations had been implemented. Action had been taken in response to the action plan agreed in 2003, although the MPA had not made a decision as to the role of the Monitoring Officer in response to potential referrals from the Standards Board for England of allegations of breaches of the Code of Conduct. Guidelines should be established in advance of any actual referral.
- 66 As part of our approach, we facilitated a workshop with the Standards Committee to explore members' attitudes and awareness of the ethical framework. Members demonstrated a keen appreciation of their responsibilities for ethical conduct.



- 67 The MPA is developing its response to the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003. We will consider the adequacy of these arrangements as part of the ongoing audit.

## Other work

### Use of resources

- 68 The IPA included a scored assessment of the MPA's governance arrangements - the 'auditor scored judgements'. For 2005, we have undertaken a tailored use of resources' follow-up assessment in order to gauge progress. The results are set out in Table 2 below. There are proposals to include an extended use of resources judgement in HMIC's baseline assessment in the future (see paragraphs 79 to 81 below).

**Table 2 Use of resources**

| Element              | Assessment  |
|----------------------|---|
| Financial reporting  | The accounts were produced to the statutory timetable and were given an unqualified audit opinion. However, material amendments were necessary to the draft accounts and the quality of supporting working papers requires improvement.                               |
| Financial management | The MPA is improving the links between the corporate strategy and the medium-term financial plan. Financial monitoring is effective, and action planning in response to budget variances is becoming more focused. Asset management is developing.                    |
| Financial standing   | Current spending plans are matched to the overall resources available. Reserves and balances are managed effectively. Action is necessary to improve arrangements for managing overspending budgets.  |
| Internal control     | Risk management is making progress. There are established arrangements for reviewing internal control, although the documentation of systems and procedures requires further attention. Arrangements to prevent and detect fraud and corruption are well-established. |

- 69 The MPA and MPS have responded positively to our initial assessment and are committed to improving arrangements. Action plans are being developed in response, and we will consider the effectiveness of the actions taken during next year's audit.

## Grant claims

- 70 The Home Office has recently confirmed that it has removed the requirement for audit certification for police grants for 2004/05 and beyond. This follows a review of arrangements to obtain adequate assurance about grant monies in accordance with a request from HM Treasury. The key principle from the HM Treasury request is that the audit for grants should be carried out in a way proportionate to the amounts involved and the associated risks. Recipients will need to account for their claims, but further certification through formal audit is not always necessary.
- 71 The Home Office has concluded that, taking all factors into account, it is content to proceed from 1 April 2004 (financial year 2004/05 onwards) on the basis of annual assurance from the Treasurer and the Commissioner.

## National Fraud Initiative

- 72 In 2004/05, the MPA and MPS took part in the Audit Commission's National Fraud Initiative (NFI 2004). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include pensions, payroll and housing benefit frauds, with the details of housing benefit fraudsters being passed back to the employing body to allow them to consider the implications and take action as appropriate.
- 73 The NFI 2004 results were distributed on CD-ROM on 31 January 2005 and participating bodies are required to provide savings returns reporting progress made as at 31 May 2005, 30 September 2005 and 31 December 2005.
- 74 The MPA and MPS have achieved positive results from participation in previous NFI rounds, whilst still prioritising other high risk investigative work. Savings achieved from data matches identified in NFI 2002 amounted to more than £58,000, and a number of current and former staff members have had action taken against them. The initial risk assessment of the 2004 data matches is nearing completion and investigations of the few high-risk matches identified should now be prioritised.

## Looking forwards

### Future audit work

- 75 We have an agreed plan for 2005/06 and we have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts and the delivery of the crime recording audit, will be reported in next year's Annual Letter.
- 76 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the MPA. We will continue with this approach when planning our programme of work for 2006/07. We will continue to develop our relationship with HMIC to ensure a co-ordinated approach to regulation.

### Revision to the Code of Audit Practice

- 77 The statutory requirements governing our audit work are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 78 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was agreed with the Corporate Governance Committee in July 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

### Working with HMIC

- 79 HMIC currently undertakes a baseline assessment of every police force. The methodology is similar to that of the Comprehensive Performance Assessment for local authorities and it includes an assessment of financial management and financial standing.
- 80 In the past, this assessment has been undertaken by a member of HMIC staff. To reduce potential for overlaps and secure greater consistency in reporting, it is proposed that in future the Audit Commission develop and produce a 'use of resources' judgement for all police forces and that HMIC rely on this judgement and incorporate it into the baseline assessment.
- 81 Negotiations are at an early stage but we would aim to have the new arrangements in place for the 2006/07 audits which would mean that a use of resources judgement should be available in July/August 2006 to feed into the HMIC baseline assessment reports which are published each October.

## Closing remarks

- 82 This letter has been discussed and agreed with the Chief Executive, Treasurer and Chairman of the MPA and the MPS Senior Management Team. A copy of the letter was presented at the Corporate Governance Committee meeting on 5 December 2005.
- 83 The MPA and MPS have taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the assistance and co-operation received.

## Availability of this letter

- 84 This Letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the MPA's website.

Michael Haworth-Maden  
District Auditor  
15 December 2005

# Appendix 1 – Background to this letter

## The purpose of this letter

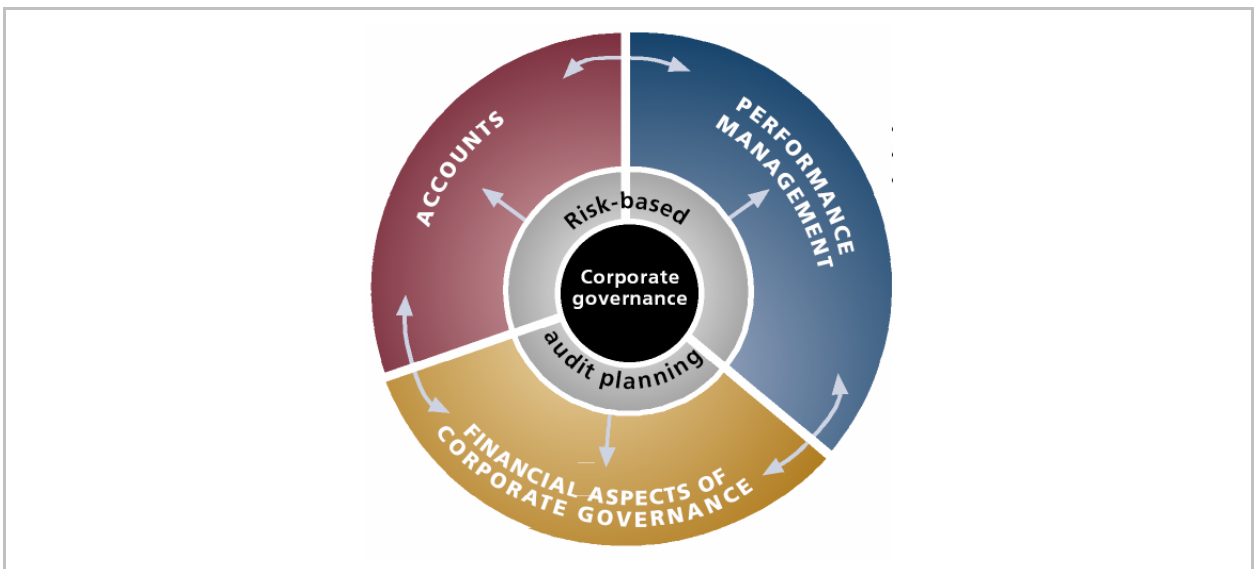
- 1 This Annual Audit Letter summarises the conclusions and significant issues arising from our recent audit of the MPA.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 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.
- 4 Appendix 3 provides information about the fee charged for our audit.

## Audit objectives

- 5 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 the significant risks that are relevant to our audit responsibilities.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### **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.

## Appendix 2 – Audit reports issued during 2005

**Table 3**

| <b>Report title</b>   | <b>Date issued</b> |
|---|--------------------|
| Setting High Ethical Standards  | February 2005      |
| Audit Plan 2005/06  | July 2005          |
| Interim Audit   | July 2005          |
| Metropolitan Police Partnerships  | July 2005          |
| Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610) | October 2005       |
| Audit Opinion   | October 2005       |
| Risk Management   | October 2005       |
| Audit of Statutory Performance Indicators   | November 2005      |
| Auditor's Report on the BVPP  | November 2005      |
| Final Audit   | December 2005      |
| Use of Resources  | December 2005      |



## Appendix 3 – Audit fee

**Table 4      Audit fee update**

| <b>Audit area</b>                            | <b>Plan 2004/05</b> | <b>Actual 2004/05</b> |
|--|---------------------|-----------------------|
| Accounts                                     | £195,000            | £195,000              |
| Financial aspects of corporate governance    | £168,000            | £168,000              |
| Performance                                  | £146,000            | £146,000              |
| <b>Total Code of Audit Practice fee</b>      | <b>£509,000</b>     | <b>£509,000</b>       |
| Additional voluntary work (under section 35) | -                   | -                     |
| <b>Total</b>                                 | <b>£509,000</b>     | <b>£509,000</b>       |