MOPAC | MAYOR OF LONDON OFFICE FOR POLICING AND CRIME | METROPOLITAN POLICE | TOTAL POLICING

AUDIT PANEL
Friday 31 March 2017

External Audit Report 2016/17

Report by: Chief Finance Officer, MOPAC and Chief Finance Officer, MPS

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1. Report Summary

1.1. This report provides an update on the work of our External Auditors, Grant Thornton (GT), their Annual Audit Letter, their Value for Money Findings report and their Audit Committee Update. This paper builds on the report to Audit Panel in September 2016 and the GT Audit Findings Report of July 2016.

1.2. The MOPAC/MPS final audited statements were completed on 20 July 2016. The annual audit letter states that Grant Thornton has given unqualified opinions for the financial statements, the Whole of Government Accounts (WGA) and for value for money.

1.3. The Grant Thornton external audit contract expires with the audit of the 2017/18 accounts. The DMPC approved the procurement strategy for the re-provision of the external audit service in the light of the known expiry of the current Grant Thornton contract and the requirement to appoint a supplier by 31 December 2017. MOPAC has opted to use the national external audit procurement route via the LGA Public Sector Audit Appointments (PSAA) Ltd.

2. Recommendation - that the Audit Panel note the report.

3. Supporting Information

<u>Accounts and Audit Update</u>

3.1 The MOPAC and MPS final audited financial statements were completed on 20 July and published on our websites. Grant Thornton gave unqualified opinions on the accounts on the 21 July, and the final Joint Annual Audit Letter (Appendix 1) issued in October saw them confirm unqualified audit opinions on the financial statements.

3.2 The Annual Audit Letter (**Appendix 1**) confirms two findings of note from the Audit Findings Report (AFR):

- o Need to actively review the 'goods received, invoice not received' balance to identify aged items where the accrued expenditure could potentially be reversed, and

- o Need to strengthen member data controls in respect of the officer pension scheme administered by Equiniti.

3.3 Grant Thornton structure their audit on a risk based approach. Risks are identified in advance of the audit and work completed to address them. GT has not identified any other significant issues other than the above in relation to the risks identified. In addition, all accounting policies, estimates and judgements had been assessed as ‘green’ by the auditors.

3.4 GT also gave an unqualified opinion on the MOPAC/MPS return to central Government to enable the consolidation of public sector accounts – the Whole of Government Accounts (WGA).

Value for Money

3.5 The Joint Annual Audit Letter summarises the Value for Money opinion with further detail is set out in **Appendix 2 -** GT MOPAC/MPS Value for Money Findings Report. In summary, Grant Thornton (GT) are satisfied that both MOPAC and MPS have in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources.

3.6 GT notes the good progress the MPS has made in developing its high level vision and its operating model, One Met Model 2020 and its blueprint. They note the need to implement the significant transformational change and associated savings and that there are risks and areas of improvement needed in some of the thirteen OMM programmes. Integrating the draft Police and Crime Plan with the MPS vision and plans is identified as a critical issue, and a framework of oversight by MOPAC to gain assurance on delivery is also needed.

3.7 The VFM risks, finding and conclusions are set out in Appendix 1. In summary, GT has made a number of recommendations and that overall their work allowed them to conclude that proper arrangements were in place for the risk areas identified. The joint action plan with MOPAC/MPS management responses to the GT recommendations is set out at Appendix 1B.

Grant Thornton Audit Committee Update

3.8 **Appendix 3** provides the GT update on their work on the 2016/17 accounts audit work, and Police Sector Accounting and other issues.

3.9 Interim audit fieldwork has taken place during January – March to undertake systems work and early substantive testing. Top up testing and the audit of the financial statements is scheduled for June/July. Work on the VFM opinion is scheduled for March-July.

3.10 GT has provided an overview of reports and tools it has produced in the year covering issues relevant to policing. These cover changes to financial reporting formats key legislation and changes affecting the payroll.

External Audit Contract

3.11 MOPAC has opted into the Local Government Association (LGA) Public Sector Audit Appointments (PSAA) Ltd national procurement to source the replacement external audit service. This route provides the benefits of scale of economies and avoiding the need to carry out a separate procurement exercise.

3.12 During the coming months MOPAC/MPS will liaise with the PSAA to inform them of potential conflicts of interest, joint working, etc.

4. Equality and Diversity Impact

There are no equality and diversity implications directly arising from this report.

5. Financial Implications

The planned external audit costs were £252k, and the actual fees are £285k. The additional external audit costs of £33k relate to additional VFM work following the termination of the Command and Control Futures programme. These costs have been contained within existing budgets.

6. Legal Implications

There are no direct legal implications arising from the report.

7. Risk Implications

There are no direct risk implications arising from the report.

8. Contact Details

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9. Appendices and Background Papers

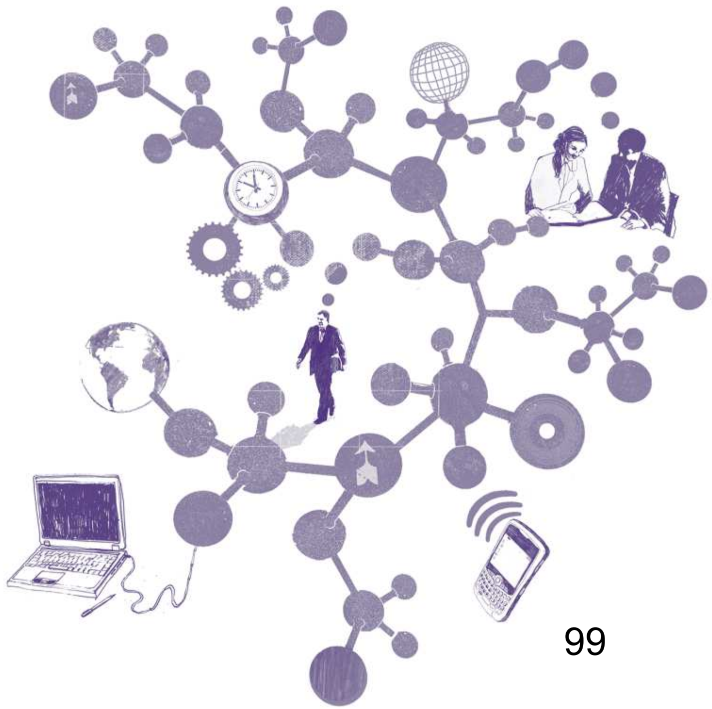
Appendix 1 – Grant Thornton Annual Audit Letter
Appendix 2 - Grant Thornton Value for Money Findings Report
Appendix 3 - Grant Thornton Audit Committee Update

Grant Thornton

The Joint Annual Audit Letter for the Mayor's Office for Policing and Crime and the Commissioner of Police of the Metropolis

Year ended 31 March 2016

October 2016



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out for the Mayor's Office for Policing and Crime (MOPAC) and the Commissioner of Police of the Metropolis (MPS) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to MOPAC, the MPS and their external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work in our Joint Audit Findings Report to the Deputy Mayor for Policing and Crime and the Deputy Commissioner, as Those Charged With Governance for MOPAC and the Metropolitan Police, respectively, on 20 July 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give opinions on the MOPAC and MPS' financial statements (section two); and
- assess MOPAC and the MPS' arrangements for securing economy, efficiency and effectiveness in their use of resources (the value for money conclusion) (section three).

In our audits of the financial statements of MOPAC and the MPS, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinions

We gave unqualified opinions on MOPAC and the MPS' financial statements on 21 July 2016.

Value for money conclusions

We were satisfied that MOPAC and the MPS both put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources during the year ended 31 March 2016. We reflected this in our audit opinions on 29 September 2016.

Whole of government accounts

We completed work on the Group consolidation return following guidance issued by the NAO and issued an unqualified report on 29 September 2016.

Certificate

We certified that we had completed the audit of the accounts of MOPAC and the MPS in accordance with the requirements of the Code on 29 September 2016.

Working with MOPAC and the MPS

We would like to record our appreciation for the assistance and co-operation provided to us during our audits by MOPAC, the MPS and their staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the MOPAC and MPS accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audits of MOPAC and the MPS accounts as a proportion of the smaller of gross revenue expenditure of MOPAC and gross revenue expenditure of the MPS. For 2015/16, this was determined to be £68m, being 1.85% of budgeted gross revenue expenditure of the MPS. We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We defined the clearly trivial amount to be £3,400k.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- MOPAC and MPS accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of MOPAC and the MPS and with the accounts on which we give our opinion.

We carry out our audits in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach was based on a thorough understanding of MOPAC's and the MPS' business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Applicable to MOPAC / MPS / both?	How we responded to the risk
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Both	Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted for both MOPAC and the MPS because: • there is little incentive to manipulate revenue recognition; • for MOPAC, opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government; • for the MPS, opportunities to manipulate revenue recognition are very limited as revenue is principally an inter-group transfer from MOPAC, with no cash transactions; and • the culture and ethical frameworks of local authorities, including MOPAC and the MPS, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	Both	As part of our audit work we: • Identified accounting entries, judgements and decisions made by management; • Performed a walkthrough of journals to gain assurance that the in-year controls were operating in accordance with our documented understanding; • Carried out detailed testing of high risk journal entries; • Reviewed accounting treatment for significant, unusual transactions; and • Reviewed and challenged significant accounting estimates, judgements and decisions made by management, including those concerning abortive costs. Our audit work did not identify any evidence of management over-ride of controls. We explored a number of potential accounting treatments with management for the abortive costs of the Command and Control Futures programme, and were satisfied that none of the potential accounting treatments had a materially different impact on the opinion.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Applicable to MOPAC / MPS / both?	How we responded to the risk
Valuation of property, plant and equipment MOPAC revalues its assets on a rolling basis over a five year period. The Code requires that MOPAC ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	MOPAC	As part of our audit work we: • Reviewed management's processes and assumptions for the calculation of the estimate; • Reviewed the competence, expertise and objectivity of any management experts used; • Reviewed the instructions issued to valuation experts and the scope of their work; • Held discussions with MOPAC's valuer about the basis on which the valuation was carried out. challenging the key assumptions; • Reviewed and challenged information used by the valuer to ensure it was robust and consistent with our understanding; • Tested data provided to the actuary for completeness and accuracy; • Tested revaluations made during the year to ensure they were input correctly into MOPAC's asset register; and • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. We did not identify any significant issues to report.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Applicable to MOPAC / MPS / both?	How we responded to the risk
Valuation of pension fund net liability The MPS' pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	MPS	As part of our audit work we: • Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated; • Performed a walkthrough of the key controls to assess whether they were implemented as expected and sufficient to mitigate the risk of material misstatement in the financial statements; • Reviewed the competence, expertise and objectivity of the actuary who carried out the MPS' pension fund valuation; • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary; and • Tested data provided to the actuary for completeness and accuracy. The work of the MPS' actuary relies on having complete and accurate source data in respect of scheme members. We identified that approximately 1,500 new scheme members were not included in the information sent to the actuary. Management confirmed that the information sent to the actuary did not include new recruits. We have raised this as an internal control issue, with a recommendation for management to strengthen member data control to ensure that information produced by the administrator of pension payments for the actuary is complete and accurate.
Employee remuneration Employee remuneration accruals understated (remuneration expenses not correct).	Both	As part of our audit work we: • Documented our understanding of processes and key controls over the transaction cycle; • Undertook walkthrough of the key controls to assess whether those controls were in line with our documented understanding; • Tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces; • Analysed trends and relationships to identify any anomalous areas for further investigation; • Substantive testing of staff and officer payroll payments including overtime, ensuring payments are made in accordance with the contract of employment; and • Tested to confirm the completeness of payroll transactions and appropriate cut-off. We did not identify any significant issues to report.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Applicable to MOPAC / MPS / both?	How we responded to the risk
Operating expenses Creditors understated or not recorded in the correct period (operating expenses understated)	Both	As part of our audit work we: • Documented our understanding of processes and key controls over the transaction cycle; • Undertook walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • Tested the reconciliation of operating expenditure recorded in the general ledger to subsidiary systems and interfaces; • Tested payments made and invoices received after the year end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts; and • Substantively tested in-year operating expenses. We did not identify any significant issues to report.
Police pension benefits payable Benefits improperly computed / claims liability understated	MPS	As part of our audit work we: • Documented our understanding of processes and key controls over the transaction cycle; • Undertook walkthrough testing of the key controls to assess whether those controls were in line with our documented understanding; • Substantively tested lump sum pension benefit payments; • Substantively tested monthly benefit payments; and • Tested the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces. We did not identify any significant issues to report.

Audit of the accounts

Audit opinion

We gave unqualified opinions on the MOPAC and MPS' accounts on 21 July 2016, in advance of the 30 September 2016 national deadline.

MOPAC and the MPS made the accounts available, along with full sets of working papers, for audit on 31 May 2016, the planned start date for our year-end field work, and a week earlier than the prior year. This is the second year that the MPS' finance team has achieved early close. When taking into account that there was a substantial mid-year transfer of finance and other support services to SSCL, this is a significant achievement for which the finance team and management should be congratulated.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of MOPAC and the MPS to the Deputy Mayor for Policing and Crime and the Deputy Commissioner on 19 and 20 July 2016.

We made the following recommendations in our Joint Audit Findings Report:

- Actively review the 'goods received, invoice not received' balance to identify aged items where the accrued expenditure could potentially be reversed.
- Strengthen member data controls to ensure information produced by Equiniti for the actuary is complete and accurate.

Annual Governance Statement and Narrative Report

We are also required to review MOPAC's and the MPS' Annual Governance Statements and Narrative Reports. They were published on their websites with the draft accounts in line with the national deadlines.

The documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by MOPAC and the MPS and with our knowledge of MOPAC and the MPS.

Whole of Government Accounts (WGA)

We carried out work on the Group consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed is set out overleaf, and applied to both MOPAC and the MPS.

Overall VfM conclusion

We are satisfied that in all significant respects MOPAC and the MPS both put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2016.

Value for Money key messages

Value for Money findings

The MPS has continued to make good progress in developing its high level vision – to make London the safest global city – and blueprint for its 2020 operating model. London is a city that is constantly changing, and the nature of crime is becoming increasingly complex and costly to investigate. When we reported to you last year, this was combined with a substantial financial challenge - savings of over £800m p/a (over 25% of your spend) were required by 2019/20.

Following the spending review in November 2015, the outlook changed. Police spending was protected in real terms, meaning that your savings target halved to around £390m p/a up to 2019/20. This still represents a substantial financial challenge. The announcement also risked presenting a scenario where the 'difficult decisions' were no longer required and the 'transformation' could be seen as no longer needed, if the perception was allowed to grow that the 'financial pressure was off'.

Both MOPAC and the MPS were aware of this risk and have sought to ensure the message makes clear that the transformation agenda is as necessary now as it was before the announcement. The MPS has continued to improve the top down approach to delivering its vision. There is now a maturing blueprint, service delivery model, functional model and roadmap. This, for the first time, allows the MPS sufficient understanding to model 'what if' scenarios and will therefore be a powerful tool in putting the case for change as well as informing and defending decisions with staff and wider stakeholders alike.

The focus will now be on delivering transformational change along with the still substantial savings requirement. By developing or adopting a method to measure progress towards the vision, actual real world impact can be gauged. Again, the MPS is making progress with its proposal to develop a City Safety Index (CSI) for London. To be successful this will need close alignment with wider stakeholder plans and effective partnership working. Delivering on the thirteen programmes which contribute to the changes will be an on-going challenge and there are examples where this needs to improve and where risks associated with skills and capacity are impacting.

It is also important to ensure that there is a strong alignment of the emerging plans for both MOPAC and MPS. The MPS vision of forging London as the safest global city will need to dovetail with the priorities of the emerging police and crime plan. It will also be critical to be able to demonstrate how the police and crime plan priorities will be delivered through the Met's blueprint. Supporting this, a system and framework of oversight arrangements will need to be in place that enable MOPAC to gain assurance over the delivery of plan priorities and other critical areas, and which the MPS is able to service as part of its 'business as usual' operations.

We have made a number of recommendations from our Value for Money work and these are set out in Appendix B.

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Value for Money risk areas identified

Risk areas considered	Findings and conclusions
Overall Vision and Transformational Change Following the Autumn spending review, We assessed the impact of the Autumn spending review on the ambitious plans to change the way the Met operates. The Commissioner has stated that the MPS still needs to adapt to meet the needs of Londoners. The emerging vision, in mid-2015, was for London to be *'….consistently the world's safest global city.'* This was both clear and ambitious and we assessed how this has translated into strategy and design of the transformation.	We reviewed the overall vision and strategy for the MPS and how the budget settlement impacted on the assumptions, constraints and overall design principles driving the change. A recommendation was made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the MPS has proper arrangements in place.
One Met Model The Target Operating Model (TOM) for the MPS has been a work in progress both in terms of developing the future blueprint and aligning the portfolio of programmes and projects into a coherent package to deliver it. We saw progress in this area last year and looked to assess overall maturity.	We assessed progress and development from the position in summer 2015, examining the full business case and related benefits for change. We also examined dependencies and links from the TOM to the existing Portfolio of Programmes and Projects and examine any gaps. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the MPS has proper arrangements in place.
Financial Strategy and position Last year the MPS faced a substantial savings challenge which has been alleviated to some extent with the Autumn statement. However, only a small fraction of the cumulative savings required prior to the budget had been planned so there will remain a challenge to ensure the investment for change can be financed. We examined how investment, new and enhanced threats, and business as usual are reflected.	We reviewed the arrangements in place to support the financial strategy in the medium term. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the MPS has proper arrangements.
Commercial strategy The MPS is undertaking substantial change in terms of core supporting assets. This is in the shape of estate being rationalised and back office functions being outsourced. One such area is the current finance/ HR/ procurement/ payroll outsourcing to the existing framework provider Shared Services Connected Ltd (SSCL). The contract was awarded in 2015 and the transfer of staff will commence later this year. This transition is being managed as a project and we assessed the progress and risks associated as well as the underlying business rational.	We updated our understanding of the business case and benefits of the SSCL project and reviewed project governance, plans, risk and overall delivery progress. This enabled us to conclude that the risk was sufficiently mitigated and the MPS has proper arrangements.

Value for Money risk areas identified

Risk areas considered	Findings and conclusions
ICT outsourcing The Department of Information (DoI) formed part of the outsourcing strategy with relatively large numbers of staff transferring to different suppliers under a SIAM model. Of the remaining staff it was anticipated that 50% would change to align with skills required for a much leaner intelligent customer function. The bulk of this change was completed through utilising an interim change specialist and the project was governed outside of the transformation Portfolio management team. We assessed high level progress and examined whether governance has been brought into line with the other transformational programmes as per our recommendations last year.	We updated our understand of the new operating model for IT and examined whether this is now being managed as a key enabler for the other change programmes within the portfolio. A recommendation was made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the MPS has proper arrangements in place.
MOPAC Governance and Oversight PWC undertook a review and made a number of recommendations on how governance should work with MOPAC and MPS. MOPAC and the MPS need to work collaboratively to arrive at a system of governance and oversight that is intelligent, robust, risk focused and effective.	We examined the recommendations made by PWC and assessed progress made in developing the themes and recommendations from the PWC report into embedded, workable arrangements. This enabled us to conclude that the risk was sufficiently mitigated and that both MOPAC and the MPS have proper arrangements.
Collaboration & Aspirational goals – 20:20:20 MOPAC set out in their overall Police and Crime Plan six aspirational goals. These effectively translate into 20% improvements on six criteria covering crime, justice, confidence and cost. Given the new cost environment, the HMIC report on crime recording as well as the prospect of a new Mayor for London this juncture provides a good opportunity to assess progress and update our understanding of future goals.	We reviewed the annual report on progress against the six 20s, and gained understanding of the reasons for any shortfalls. We identified where meaningful collaboration is being undertaken or planned with partners outside of the Police. Specifically where there is benefit to the overall efficiency or effectiveness. We also assessed plans as to how the new Police and Crime plan will tie-in and support the overall Vision for the MPS. This enabled us to conclude that the risk was sufficiently mitigated and that MOPAC has proper arrangements.
Termination of the Command and Control Futures programme During the planning stages of this audit we learned that the Deputy Mayor for Policing and Crime (DMPC) for MOPAC, on the recommendation of the MPS, took the decision to terminate the contract with Northrop Grumman for a £90m command & control system responsible for handling 999 calls.	We have undertaken work to assess the arrangements in place for the procurement, management and delivery of the command and control futures programme and the information used to support the decision to terminate in March 2016. Our review has not identified any matters that impact our overall value for money conclusion.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
MOPAC scale fee	131,828	148,377	175,770
MPS scale fee	120,000	136,549	160,000
Total fees (excluding VAT)	**251,828**	**284,926**	**335,770**

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	68,000

Reports issued

Report	Date issued
Joint Audit Plan	March 2016
Joint Audit Findings Report	July 2016
Joint Annual Audit Letter	October 2016

Actual fees reflect the additional work undertaken in response to the risks identified following the termination of the Command and Control Futures programme.

Appendix B: Joint value for money action plan 2015/16

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The MPS and MOPAC should ensure that measures for the delivery of the overall vision are closely aligned at an early stage to the forthcoming Police and Crime Plan.	High	We are working closely with MOPAC on the development of the Police & Crime Plan, with a view to ensuring that this overall strategic document (a draft of which is due in November 2016) aligns with the internal business plans for delivery of the priorities. The Police & Crime Plan and the MPS Business Plan will both launch at the start of the 2017/18 financial year. Once the priorities become clear within the PCP, we will work with MOPAC to identify the relevant measures that will demonstrate success against the vision and the strategy.	Director of Strategy & Governance March 2017
2.	It is vital that when developing a measurement (planned to be based on the Rotterdam City Safety Index) for the tracking of performance against the overall desired outcomes embodied in the MPS vision: • Meets the requirements of both the MPS and MOPAC as well as wider partners to inform the work they are contributing to the vision • Once developed, the measurement should be managed independently of the governance and delivery for OMM 2020 to ensure it remains a robust tool to deliver the vision and drive change beyond that.	High	We are working closely with University College London and MOPAC to deliver a London Safety Index. An initial report has reviewed a number of indices that are relevant to the problem of measuring safety in London (including the Rotterdam safety index). We will continue with this development work and discuss the options for independent management of the index with MOPAC and UCL.	Director of Strategy & Governance Sept 2017

Appendix B: Joint value for money action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	To deliver the OMM 2020, appropriate individuals should be identified as 'Business Change Managers' at an early stage. They should be experienced in the specific business area and have sufficient support and training in benefits management.	High	A comprehensive behavioural capability framework and technical capability framework for all business change roles will be in place by the close of 2017. The frameworks identify the skills and capabilities required of all change roles. All existing business change managers in the PTO will be externally assessed against these frameworks, with development plans agreed to address any capability gaps. All new recruits will be assessed against these frameworks and recruited on the basis of demonstrating the skills required of the role. All business change managers as identified, will be supported by portfolio change specialists who will set corporate standards and provide quality assurance and insight.	Director of Business Change Dec 2017
4.	Alongside the usual delivery metrics, the Portfolio should develop a set of key performance indicators to assess the progress towards the overall vision, informed by work on the CSI style measurement.	High	As with response 1, the One Met Model is a key delivery mechanism for the priorities outlined in the Police & Crime Plan and the MPS Business Plan. The monitoring of the delivery of the change programme and inherent activities will form a key part of the organisation's performance framework and we will report to MOPAC through Oversight Board on the progress towards the overall vision and priorities.	Director of Transformation March 2017

Appendix B: Joint value for money action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5.	Continue with the identification of cost-saving initiatives to identify the remaining £100m of savings required by 2019/20. Ensure there is sufficient 'headroom' within the plans to support non-delivery of schemes. Review the revised revenue savings from the ICT outsourcing programme and ensure it is reconciled with the medium term financial plans.	High	The medium-term budget (17/18 to 20/21) is being developed and an interim budget submission has been shared with the Mayor. A full budget submission will be made in November. A reassessment of the deliverability of savings has been undertaken and the output will be reflected in the final budget submission to ensure that sufficient headroom is created within the overall budget. Additional savings proposals will also be outlined in the budget submission and will include revised ICT estimates.	Director of Commercial and Finance November 2016
6.	Ensure the costs and benefits of the change programmes are dis-aggregated from the base budgets and reported in sufficient granularity to enable effective monitoring, scrutiny and identification of non-delivery of anticipated benefits. Note that this is a continuation of a recommendation from our 2014/15 and 2013/14 audit findings reports.	High	Current financial planning for the medium term now includes significant benefits from the OMM transformation programme. These benefits have been agreed as the baseline and will be managed in future on a change control basis. SROs will be held to account for the delivery of these benefits and will be responsible for identifying alternative benefits should planned benefits slip. Delivery will be reported through the new Portfolio Management Group. Once the change programme is resourced then change costs will be reported and monitored separately within the corporate financial report.	Director of Commercial and Finance Director of Transformation and Change On-going from now

Appendix B: Joint value for money action plan (continued)

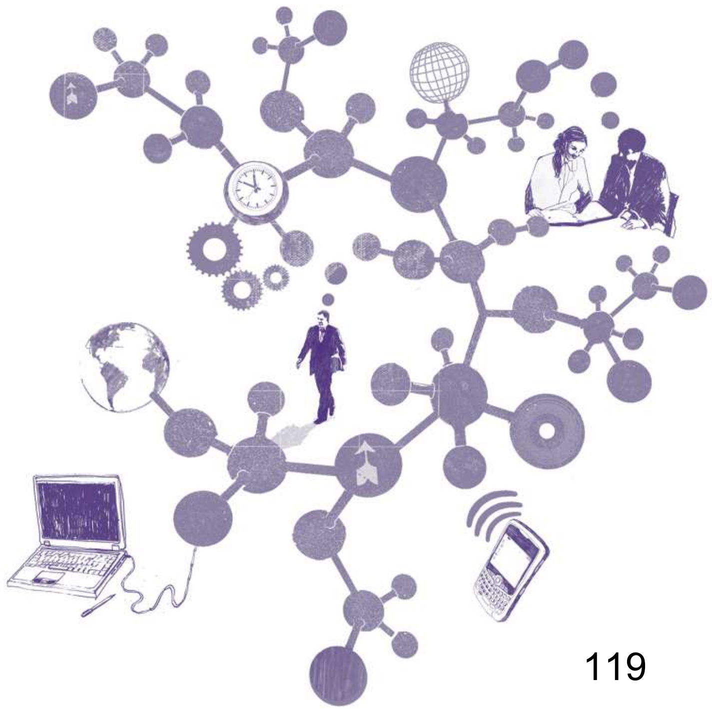
Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
7.	Given the scale of the planned capital programme, ensure there is sufficient resilience and capacity to effectively plan and monitor the programme overall.	High	A revised medium term capital programme will be shared with the Mayor as part of the November submission. It will take, into consideration, affordability and capacity to deliver.	Director of Commercial and Finance November 2016
8.	The MPS and MOPAC should work together to co-create a performance management framework that is not burdensome on either organisation, but that facilitates effective oversight of the MPS.	High	As at rec 1 once the priorities become clear within the PCP, we will work with MOPAC to identify the relevant measures that will demonstrate success against the vision and the strategy. This will form the basis of our performance management framework.	Director of Strategy & Governance March 2017

Grant Thornton

Mayor's Office for Policing and Crime
Metropolitan Police Service
Value for Money Findings Report

Year ended 31 March 2016

September 2016



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Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Mayor's Office for Policing and Crime (MOPAC) and the Metropolitan Police Service (MPS) have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at both MOPAC and the MPS. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether MOPAC and the MPS have put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in early 2016, which we communicated to you in our Joint Audit Plan dated March 2016. We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

Our risk assessment is a dynamic process and we have had regard to new events which took place since we issued our Audit Plan. In March 2016, MOPAC, on the recommendation of the MPS, terminated the Command and Control Futures contract with Northrop Grumman. This resulted in the removal of around £60m of capital investment. We therefore consider the overall arrangements in relation to the contract to be an additional significant risk. We will be undertaking additional work to understand and assess the arrangements supporting the procurement, delivery and cancellation of the contract with regard to the VFM sub-criteria of informed decision making and sustainable resource deployment.

We carry out work only in respect of the significant risks we identify from our initial and on-going risk assessment. Should our consideration of the significant risks determine that arrangements are not operating effectively, we will consider the impact of these gaps in arrangements on our VFM conclusion.

We have now completed our work in relation to the Value for Money conclusion. Our review of the Command and Control Futures risk is on-going, and will be completed over the coming weeks. We will report our findings in a Value for Money report.

Overall conclusion – Mayor's Office for Policing and Crime

Based on the work we performed to address the significant risks, we concluded that MOPAC has proper arrangements in all significant respects to ensure they delivered value for money in their use of resources.

Overall conclusion – Metropolitan Police Service

Based on the work we performed to address the significant risks, we concluded that the MPS has proper arrangements in all significant respects to ensure they delivered value for money in their use of resources.

Value for Money

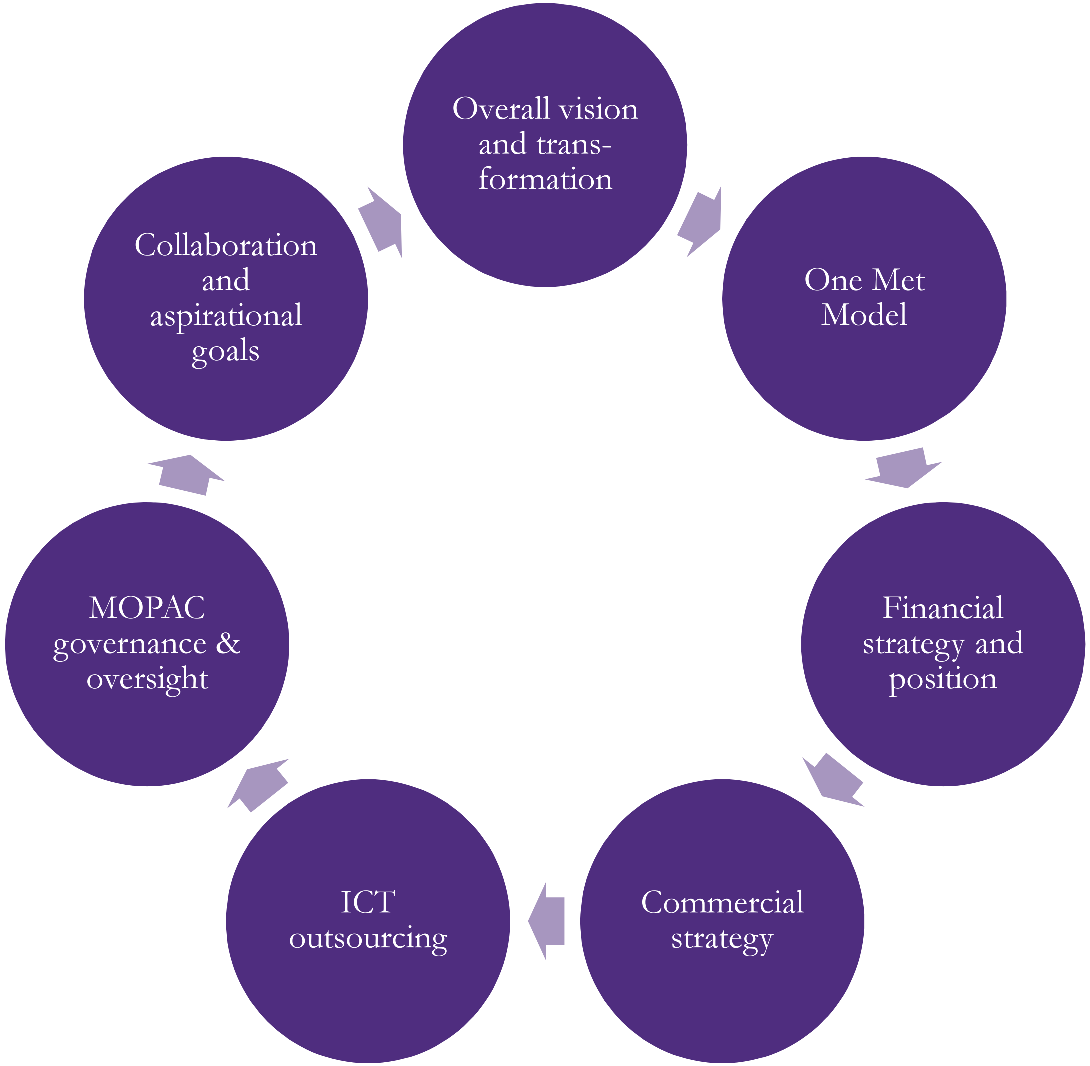
Risk assessment

We previously carried out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we have considered :

- our cumulative knowledge of both the MOPAC and the MPS, including work performed in previous years in respect of the VfM conclusions and the opinions on the financial statements;
- the findings of other inspectorates and review agencies, including Her Majesty's Inspectorate of Constabulary (HMIC);
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information;
- any other evidence which we consider necessary to conclude on your arrangements.

The areas we said we would focus on to reach our VfM conclusion are set out opposite. Further detail and the work we planned to address each area are set out overleaf.

We set out findings later in this report in respect of these areas.



Value for Money – detail of risk plan

Area to consider	VfM Criteria	Relevant to MPS/MOPAC/ Both	Work planned to address this area
1. Overall Vision and Transformational Change Following the Autumn spending review, we will assess the impact this will have on the ambitious plans to change the way the Met operates. The Commissioner has stated that the MPS still needs to adapt to meet the needs of Londoners. The emerging vision, in mid-2015, was for London to be *'….consistently the world's safest global city.'* This was both clear and ambitious and we will assess how this has translated into strategy and design of the transformation.	Informed decision making	MPS	• Update our understanding of the overall vision and strategy for the MPS. • Understand how the budget settlement has impacted on the assumptions, constraints and overall design principles driving the change. • Where these have changed, we will look to link management decisions to impact analysis and controlled change to the overall transformation criteria. • Assess maturity of the organisation in driving and leading transformational change.
2. One Met Model The Target Operating Model (TOM) for the MPS has been a work in progress both in terms of developing the future blueprint and aligning the portfolio of programmes and projects into a coherent package to deliver it. We saw progress in this area last year and will look to assess overall maturity.	Sustainable resource deployment	MPS	• Assess progress and development from the position in summer 2015. • Examine the full business case for change. • Examine benefits stated in the business case and link them to the TOM. • Examine dependencies and links from the TOM to the existing Portfolio of Programmes and Projects and examine any gaps.
3. Financial Strategy and position Last year the MPS faced a substantial savings challenge which has been alleviated to some extent with the autumn statement. However, only a small fraction of the cumulative savings required prior to the budget had been planned so there will remain a challenge to ensure the investment for change can be financed. We will examine how investment, new and enhanced threats, and business as usual are reflected.	Informed decision making Sustainable resource deployment	MPS	• Examine the MTFS and plans to understand the budget, investment and benefits profile. • Look at financial management information to assess whether this is supporting and driving change appropriately. • Assess progress with the capital programme

Value for Money – detail of risk plan (continued)

Area to consider	VfM Criteria	Relevant to MPS/MOPAC/ Both	Work planned to address this area
4. Commercial strategy The MPS is undertaking substantial change in terms of core supporting assets. This is in the shape of estate being rationalised and back office functions being outsourced. One such area is the current finance/ HR/ procurement/ payroll outsourcing to the existing framework provider Shared Services Connected Ltd (SSCL). The contract was awarded in 2015 and the transfer of staff will commence later this year. This transition is being managed as a project and we will assess the progress and risks associated as well as the underlying business rational.	Informed decision making	MPS	• Update our understanding of the business case and benefits of the SSCL project. • Examine the project governance, plans, risk and overall delivery progress.
5. ICT outsourcing The Department of Information (DoI) formed part of the outsourcing strategy with relatively large numbers of staff transferring to different suppliers under a SIAM model. Of the remaining staff it was anticipated that 50% would change to align with skills required for a much leaner intelligent customer function. The bulk of this change was completed through utilising an interim change specialist and the project was governed outside of the transformation Portfolio management team. We will assess high level progress and examine whether governance has been brought into line with the other transformational programmes as per our recommendations last year. .	Informed decision making Sustainable resource deployment	MPS	• Update our understand the new operating model for IT. • Examine whether this is now being managed as a key enabler for the other change programmes within the portfolio.

Value for Money – detail of risk plan (continued)

Area to consider	VfM Criteria	Relevant to MPS/MOPAC/ Both	Work planned to address this area
6. MOPAC Governance and Oversight PWC undertook a review and made a number of recommendations on how governance should work with MOPAC and MPS. MOPAC and the MPS need to work collaboratively to arrive at a system of governance and oversight that is intelligent, robust, risk focused and effective.	Informed decision making	Both	• Examine the recommendations made by PWC • Assess progress made in developing the themes and recommendations from the PWC report into embedded, workable arrangements • Check understanding with senior individuals in MOPAC and the MPS.
7. Collaboration & Aspirational goals – 20:20:20 MOPAC set out in their overall Police and Crime Plan six aspirational goals. These effectively translate into 20% improvements on six criteria covering crime, justice, confidence and cost. Given the new cost environment, the HMIC report on crime recording as well as the prospect of a new Mayor for London this juncture provides a good opportunity to assess progress and update our understanding of future goals. .	Working with partners and other third parties	MOPAC	• We will examine the annual report on progress against the six 20s, and gain understanding of the reasons for any shortfalls. • Coupled with the aspirational goals we will seek to identify where meaningful collaboration is being undertaken or planned with partners outside of the Police. Specifically where there is benefit to the overall efficiency or effectiveness. • We will assess how MOPAC and the MPS prepared for differing scenarios under a new Mayor and how they ensured lessons learned from the previous term will inform the new Police and Crime Plan. • We will assess plans as to how the new Police and Crime plan will tie-in and support the overall Vision for the MPS

Value for Money findings

Value for Money findings

The MPS has continued to make good progress in developing its high level vision – to make London the safest global city – and blueprint for its 2020 operating model. London is a city that is constantly changing, and the nature of crime is becoming increasingly complex and costly to investigate. When we reported to you last year, this was combined with a substantial financial challenge - savings of over £800m p/a (over 25% of your spend) were required by 2019/20.

Following the spending review in November 2015, the outlook changed. Police spending was protected in real terms, meaning that your savings target halved to around £390m p/a up to 2019/20. This still represents a substantial financial challenge. The announcement also risked presenting a scenario where the 'difficult decisions' were no longer required and the 'transformation' could be seen as no longer needed, if the perception was allowed to grow that the 'financial pressure was off'.

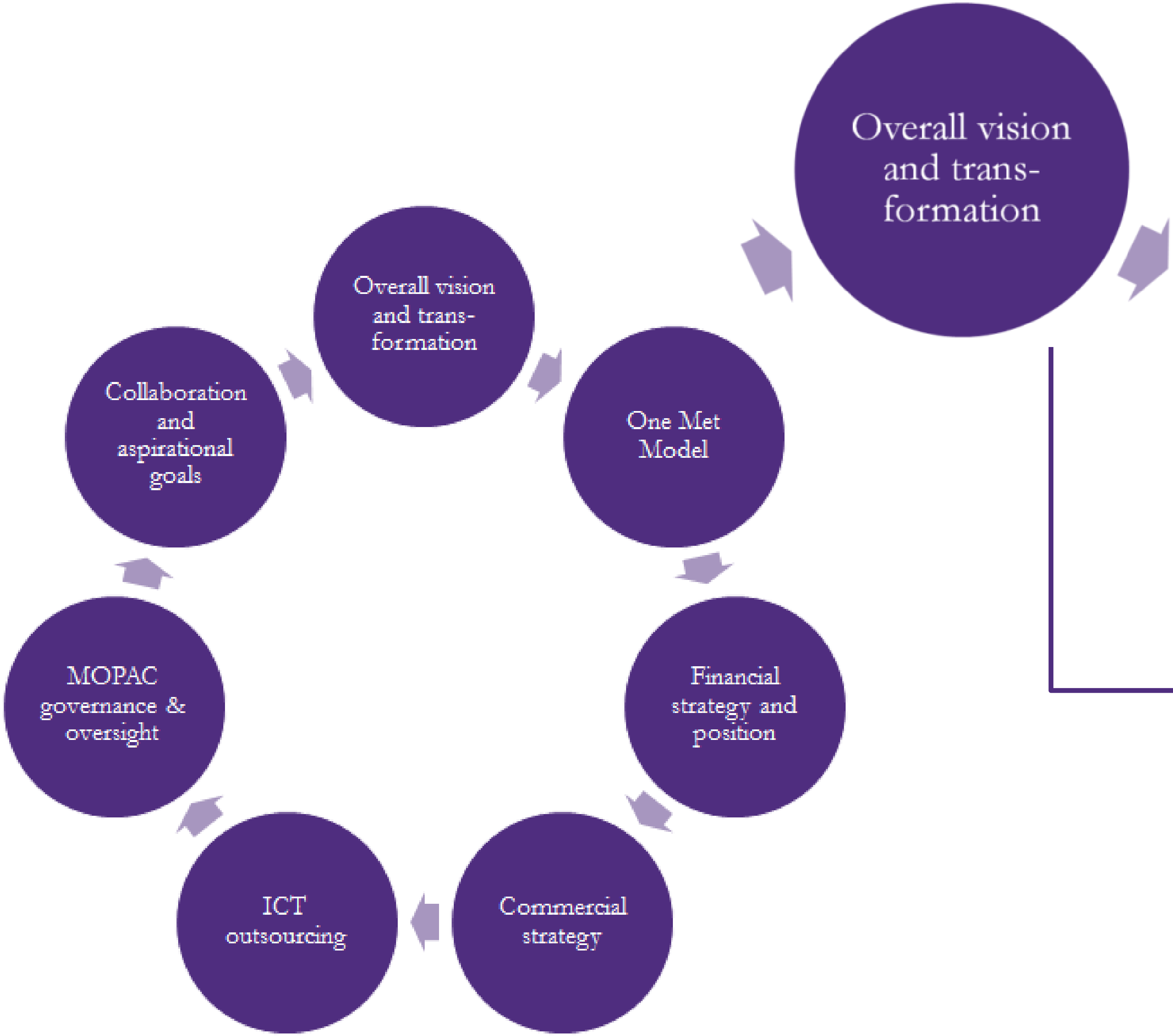
Both MOPAC and he MPS were aware of this risk and have sought to ensure the message makes clear that the transformation agenda is as necessary now as it was before the announcement. The MPS has continued to improve the top down approach to delivering its vision. There is now a maturing blueprint, service delivery model, functional model and roadmap. This, for the first time, allows the MPS sufficient understanding to model 'what if' scenarios and will therefore be a powerful tool in putting the case for change as well as informing and defending decisions with staff and wider stakeholders alike.

The focus will now be on delivering transformational change along with the still substantial savings requirement. By developing or adopting a method to measure progress towards the vision, actual real world impact can be gauged. Again, the MPS is making progress with its proposal to develop a City Safety Index (CSI) for London. To be successful this will need close alignment with wider stakeholder plans and effective partnership working. Delivering on the thirteen programmes which contribute to the changes will be an on-going challenge and there are examples where this needs to improve and where risks associated with skills and capacity are impacting.

It is also important to ensure that there is a strong alignment of the emerging plans for both MOPAC and MPS. The MPS vision of forging London as the safest global city will need to dovetail with the priorities of the emerging police and crime plan. It will also be critical to be able to demonstrate how the police and crime plan priorities will be delivered through the Met's blueprint. Supporting this, a system and framework of oversight arrangements will need to be in place that enable MOPAC to gain assurance over the delivery of plan priorities and other critical areas, and which the MPS is able to service as part of its 'business as usual' operations.

We have reviewed the arrangements in relation to the termination of the command and control futures programme and have not identified any matters that impact our overall value for money conclusion.

Our work focused on a number of key areas, looking at the plans, the risks and the opportunities faced. We set out over the following pages our findings.



- The vision is clear, ambitious and easily communicable.
- It is underpinned by a set of values and code of ethics which have in turn informed the design principles, most of which have now been agreed at Board level.
- Progress towards the vision needs to be measurable, with clear links to the portfolio of change programmes and benefit profiles.
- The plan needs to be flexible and adaptable - there is the need to align with MOPAC plans as they develop, and for this to be done at an early stage to avoid the need for 'reconciliation' of priorities at a later date.
- Key measurements should be managed independently.
- Delivering the vision requires substantial investment. Risks to delivery identified in the strategic outline case highlight capacity, skills ad benefits management as key areas of focus.

One Met Model

- The One Met Model 2020 blueprint continues to mature. June 2016 version provides substantial detail on the future model for the MPS in respect of customers, staff, process and infrastructure.
- Blueprint is based on the desired outcomes – mapped to either capabilities or services to produce a functional model, which is not yet in place.
- It incorporates and drives a number of projects and programmes to facilitate the overall vision. The blueprint itself continues to evolve, but there remains a lack of clarity over how programmes and projects tie together.
- The overall transformation is now managed within a Portfolio which currently consists of 13 programmes, some of which are still under consideration (as at May 2016).
- The broader portfolio approach, incorporating all programmes in the MPS, both those derived from OMM 2020 and those necessary to the overall operation, is an improvement and should drive consistency and better management of resources.
- There remain skills and capability shortfalls, partly being addressed through direct recruitment and a support contract with Deloitte which aims to bolster senior resource, transfer skills and provide formal training to SROs and programme managers.
- Skills transfer is vital as MPS has relied heavily in the past on consultancy support in developing the portfolio – particularly in areas such as Digital Policing.
- However the Deloitte contract does not cover requirements below programme manager which remains a major risk.
- There is the need to identify Business Change Managers with appropriate experience. Currently, only two are identified against the 13 programmes. This shortfall presents a critical risk to the delivery and ownership of the substantial expected benefits. Particularly pertinent given the DARA review of the Benefits Realisation Framework (Nov 2015) which gave only limited assurance in this area.
- Benefit change managers are also important to play a critical role in ensuring a healthy tension between programme delivery and outcome realisation.
- The Portfolio is not yet at a maturity to fully cost the changes needed to deliver OMM 2020, nor is there a full understanding of the overall benefit profile.
- The level of investment required going forward is substantial, with £620m going into technology alone. The whole transformation programme is expected to cost in excess of £1bn. Efficiencies, productivity gains and improvements in service will need to be measured and assessed at periodic intervals. This will better inform progress and enable decision making going forward.
- It is not sufficient that individual projects or programmes do this in isolation as there is a risk costs will be transferred to elsewhere in the organisation - meaning the sum of the parts will not add up.
- Need to identify vision outcomes and metrics to be able to assess whether benefits being realised are contributing to the global whole. Business change managers essential to this process.

Financial strategy and position

- The financial challenge has reduced from over £800m p/a by 2019/20 to around £390m p/a. This position incorporates assumptions around both funding reductions and expected future saving pressures, which are around £100m.
- Savings of £290m for the back office identified (improvement over last year where only £110m identified), but need to ensure these are clearly linked to transformation, are robust and reporting is disaggregated from base budgets.
- Scope for more alignment and integration between financial plan and OMM 2020. True cost of transformation is not known. If the cost of the transformation programme is not affordable within the projected budget constraints for 2020, the programme will fail to meet one of its key benefit criteria.
- Not all savings delivered in year are in line with plan or transformational in nature. The distinction should be made between not exceeding the budgetary constraints in any given financial year, and the genuine achievement of planned transformative savings in the year as part of a strategic change programme. Conflating the two may present a misleading picture of success in the achievement of planned, transformative, recurrent savings in the year in question, when in fact the true success being reported is the delivery of the in-year budget. This could lead to annual "savings" being reported without the benefits of the transformation being realised, undermining the long term resilience of the organisation.
- There has been progress over the disaggregation of the existing savings programmes from base budgets, with analysis of savings with identified structural and timing issues reported alongside those expected to be delivered in full as part of the 2016/17 budget monitoring.
- It will be critical to ensure that a similar process is developed for the transformation savings expected to arise from the OMM 2020 as they come online.

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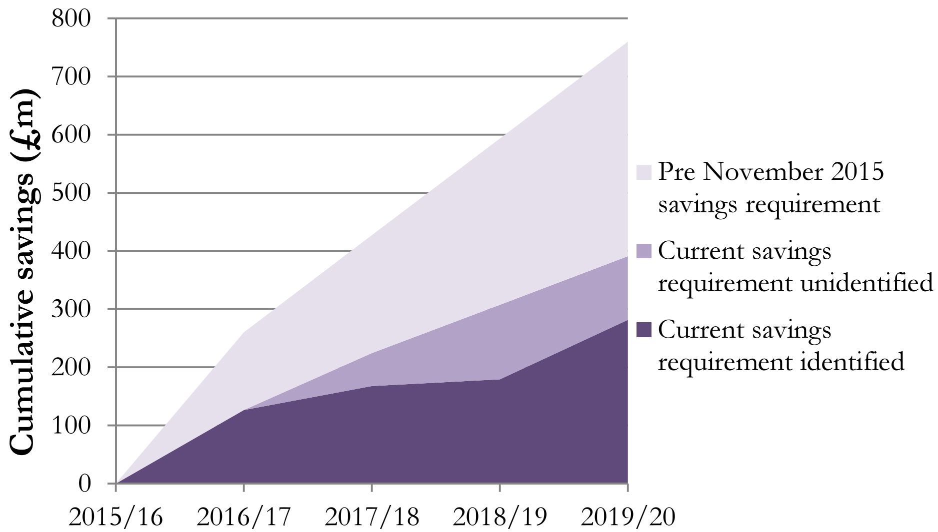
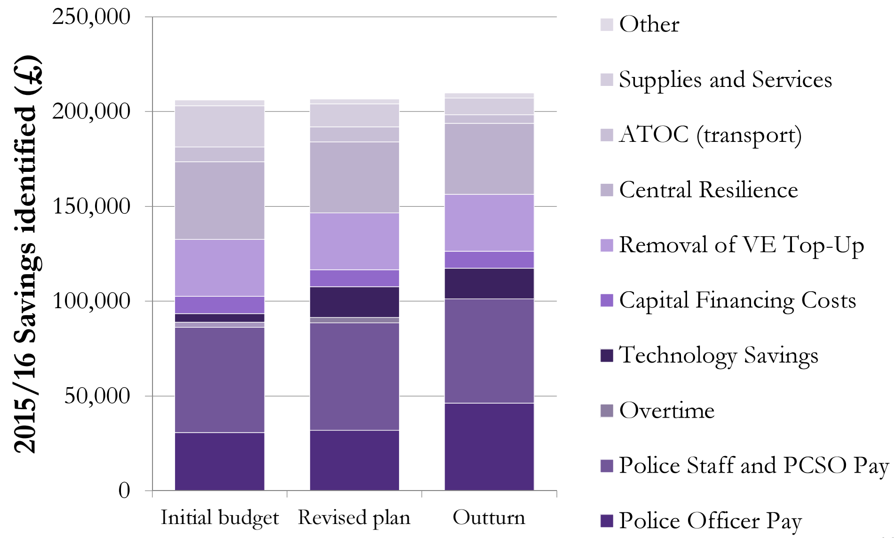
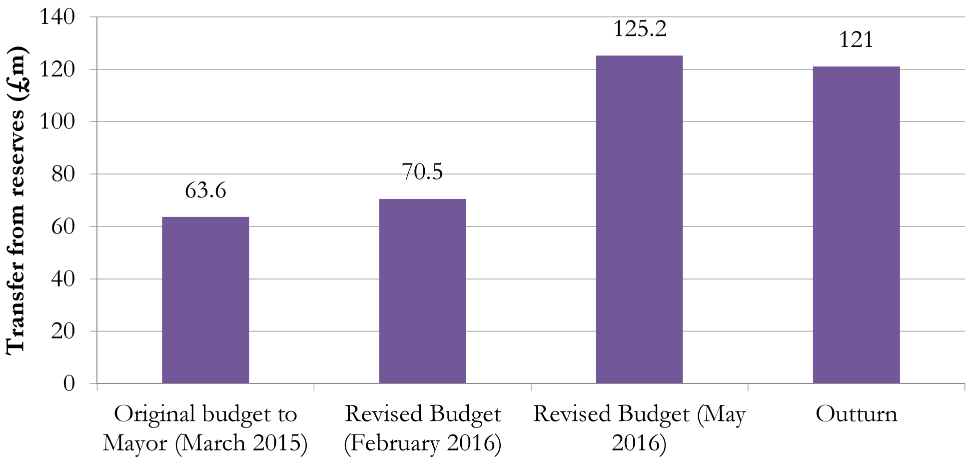
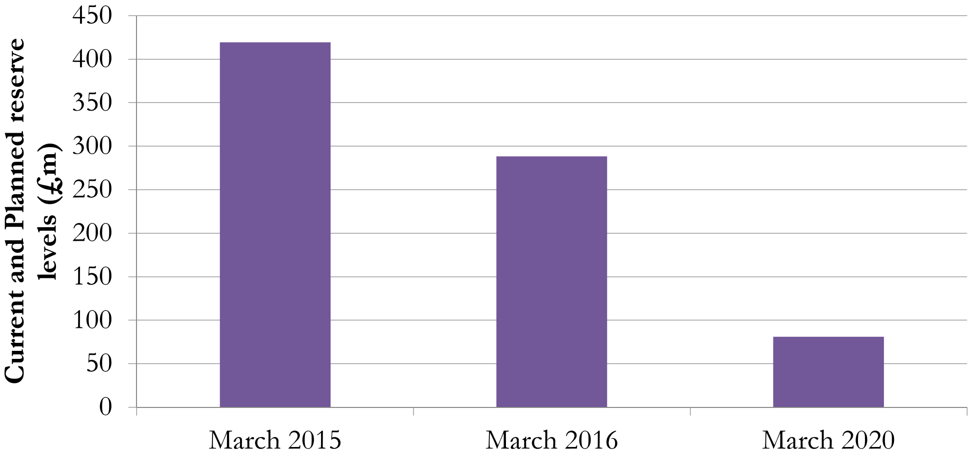




- Risk that the sum of savings generated by individual projects, both identified and unidentified, will not deliver sufficient cost reductions to meet the identified budget gap. As additional savings plans are developed, sufficient 'headroom' should be incorporated to ensure that the risk of under-delivery is mitigated.
- In the budget as at March 2015, there was a planned use of reserves of £63.6m. Following several budgetary revisions, the outturn saw a transfer from reserves of over £120m. This was the result of increased clarity within the budget and reporting position that is built into future processes to ensure reserve transfers are accurately reported. The reserves transfer is large and has been partially used to support the 'day to day' budget position in 2015/16. There is no plan for this to continue in 2016/17, as using one-off reserves to fund on-going spend is not sustainable. All reserve transfers planned for 2016/17 are allocated to support transformation and other key initiatives. It is important to ensure they are used for their planned purposes and not redirected to support the 'day to day' budget position.
- There should be transparency over the use of reserves, in particular the distinction between reserves used to fund in-year pressures and those that are used to drive change and deliver future savings.
- The capital programme is ambitious. The annual expenditure of around £400m is far in excess of what has been delivered in previous years, and the MPS should ensure there is sufficient resilience and capacity to effectively plan and monitor programmes on this scale.
- There is a risk that the capital programme does not deliver in line with plan. In 2015/16, capital expenditure was £224m against a budget of £266m (84% of plan). The non-delivery primarily relates to slippage on the Digital Policing led NSY/IT relocation programme. This is being appropriately monitored, but cannot afford to slip further.
- Given the scale of the capital programme, there needs to be robust oversight of not only the delivery, but the planning. Where slippage occurs, there is a risk that either the capital programme was inaccurately forecast or that it leads to the non-delivery of strategic priorities.

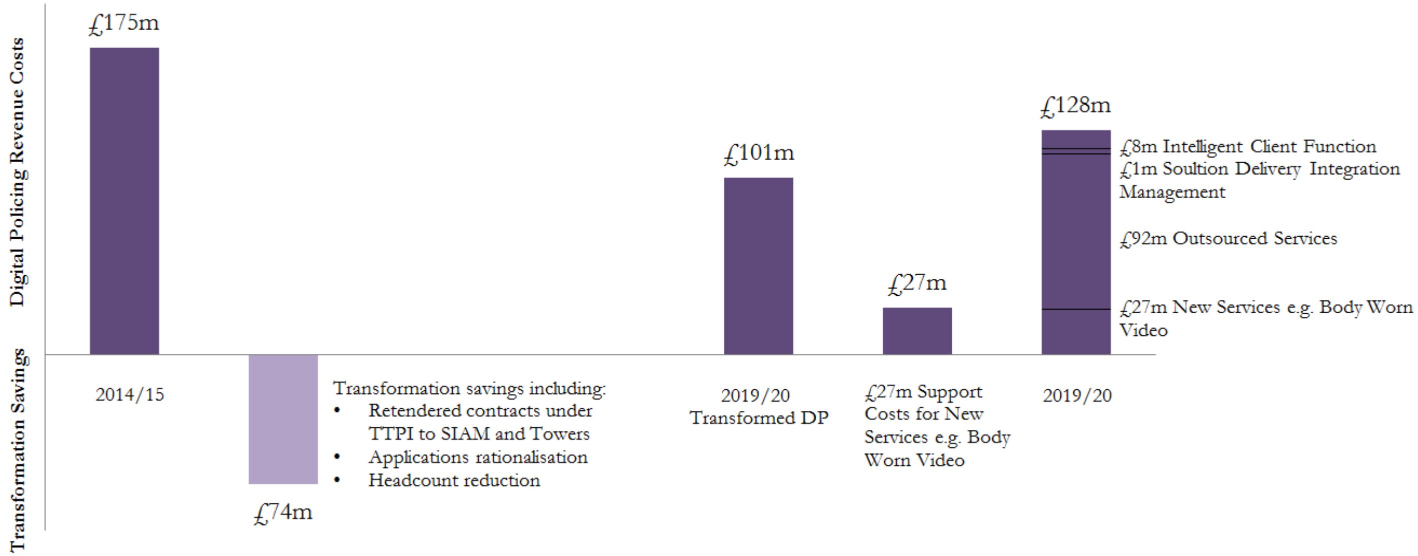




- Plans to reduce back office expenditure from 23% to 15%, through investment and transforming the way the MPS provides services. Plans to reduce 600 contracts to 20 major strategic contracts.
- Savings from back office functions were estimated to be in the region of £290m by 2020, of which some £260m were identified.
- Commercial strategy sets out eight objectives with a senior manager assigned to deliver against each one. Each objective has an outline plan and identified performance measures.
- Needs improvement in skills and capability around the organisation, and the need to build up the teams to support the overall change programme. Additional resource required to meet the objectives, address shortfalls in capability and provide new areas of focus (e.g. income generation) represents a significant investment in new staff (estimated £1.6m recurring costs).
- Need to streamline reporting. Regular performance reporting for routine activity comprises over twenty different reports covering a range of internal and external stakeholders. Work is underway to develop a 'Procurement Services scorecard' and rationalise the reporting process, but this will require further investment in systems.
- The procurement centre of excellence needs to be seen to add value to the wider organisation. Parts of the organisation have not actively sought to involve (at an early stage) commercial teams in the past, leading to sub-optimal contracts being let. This has been somewhat alleviated by the adoption of the Treasury Green Book business case approach which systematically requires a commercial input. There is a need to actively consult users on their needs and perceived shortfalls of the service to better inform and develop plans for the eight objectives.
- A typical example of where the Met Commercial Strategy is looking to improve back office functions and make efficiency gains is through the contract with Shared Services Connected Ltd (SSCL). This is a service that provides outsourcing of finance, HR, procurement services and payroll.
- SSCL were selected, after extensive research and due diligence, as an existing framework provider with other government departments. This approach has its merits in terms of having already been competed and being an existing provider to the cabinet office. This has enabled the MPS to reduce timescale for award and implementation. Following the decision by MOPAC in July 2015, staff were TUPE transferred by October 2015, which represents very rapid progress in the early part of this contract.
- The downside risk of this approach is that the requirement may not fully meet the envisaged needs of the organisation. Indeed, this risk appears to have crystallised in the shape of HR front end requirements. Despite a substantial effort in the due diligence phase the requirement from HR appears to have come late to the table which could prove more costly than if it had been addressed earlier.
- Implementation has been delayed by five months with potential cost implications, although the CFO believes these can be mitigated.
- On a programme of this scale, it is understandable that some risks can materialise. Given the new shape of this function is likely to require more self-service, it is important to ensure the usability is appropriate for the end user. There can often be a tension between efficiency, flexibility and productivity in designing the optimal mix for the client. To achieve this necessitates rigorous engagement in the requirements phase.

ICT outsourcing

- There has been rapid progress in the ICT outsourcing strategy within Digital Policing (DP).
- Implementation of the SIAM tower model is now substantially complete.
- Reductions in core staff are progressing to reduce the function from 800 to 100 people. Currently 250 people left in the organisation. Around 300 have exited with a further 190 moved to other areas of the business.
- The revised financial analysis confirms that the cost savings are £63m less than expected last year, and there may be further costs.
- Last year we reported that the DP revenue budget was £175m for 2014/15 and the intention of these changes was to reduce it to £65m by 2020. The 2015/16 budget has reduced to £168m and the current projected 2019/20 budget is now £128m. This represents a saving of only £47m, but does incorporate £27m of growth within the service relating to new services such as body work video. The 'transformed' DP budget is therefore £101m. This means there is a net £36m (£101m less £65m target) short of the target stated last year. The breakdown tabled at the Joint Investment Board on 11 March 2016 is reproduced here:



- The figures represent current known estimates of cost. As such this is a best case minimum budget with a possibility that this will increase. The initial saving assumptions for the core DP offering of circa £110m would seem to have been overly ambitious.
- DP are delivering the organisation changes they said they would and are on course to establishing a core and focused IS service supported by several key industry suppliers. This will add contractual rigour for new requirements going forward.
- The current MTFP shows a planned saving of £86m for ICT, showing that finance had anticipated not meeting the full expectation from last year. However, based on the analysis above, this still represents a potential gap of £46m (2015/16 baseline of £168m less the £128m shown above compared to the £86m per the MTFP), which indicates there may be a shortfall in the current planned savings.

- PwC carried out a review of MOPAC governance and oversight arrangements.
- Recommends new approaches to holding the MPS to account. It is clear on the importance of a balanced approach to governance and oversight and a range of approaches to hold the MPS to account.
- MOPAC recognises their finance team has been stretched in terms of capacity and capability and may not be sufficiently resourced to maintain effective strategic oversight of financial issues. Can lead to oversight being reactive.
- Improvements in arrangements have been seen in some areas. Performance management and oversight of the commercial strategy is now an area where the MPS can provide dashboard reports that enable a single high level view of commercial performance using the eight commercial strategy objectives. Similarly, MOPAC is clear that the quality of management information it receives from the Change Portfolio has improved.
- Conversations at the operational level between MOPAC and the MPS to improve the quality and consistency of management information across the MPS continue to progress.
- Some progress has been made towards developing a more structured framework that enables effective, proactive and forward-looking oversight through the provision of management information to MOPAC. A forward-looking schedule of key management decisions and reports is provided to MOPAC, alongside financial and crime-related performance reports. The challenge for the MPS is now to develop these reports into an efficient, accessible and integrated dashboard format encompassing MPS performance across finance, crime-performance, process and people.
- It is important to minimise the burden of performance reporting by reducing fragmentation, ensuring a risk based approach is adopted, and aligning reporting requirements within the MPS with oversight requirements necessary to enable MOPAC to perform its statutory function.
- Oversight arrangements should also be aligned with the requirements of the developing police and crime plan priorities to enable an integrated strategic reporting framework that streamlines reporting requirements and allows single source data systems to satisfy the needs of multiple stakeholders, both within the MPS and out to MOPAC.

- Some success against the 2013-2016 plan, but key metrics remain below target.
- The MPS One Met Model 2020 will need to align with the new Police and Crime Plan. The work undertaken by the MPS to date in developing its vision and target operating blueprint can usefully inform the conversation on how to achieve the emerging priorities that may form the new Plan.
- There is an opportunity to minimise the time cost of 'disconnected visions'. Collaboration and time investment upfront removes the need, once plans have been finalised, to 'reconcile' the objectives of each if developed in relative isolation and mitigates the need to undertake further work to demonstrate how the police and crime plan priorities are deliverable and achievable within the MPS plans.
- In the longer term, the MPS should consider how it will build sufficient flexibility into the One Met Model to ensure it is ‘future-proofed’ – able to adapt flexibly to changing priorities and objectives in future police and crime plans.
- Both the MPS and MOPAC are clear that effective partnership working is critical to delivering policing priorities and objectives. However, DARA's review of the Partnership Framework found there was an uncoordinated, inconsistent and fragmented approach to partnership working and that the absence of corporately held information on current partnership and funded initiatives has made it difficult for leaders to identify, quantify and evaluate the activity taking place.
- The report identified a number of key risk issues for management action and stated "a clearly defined and agreed strategic approach is required for the development and management of effective partnership activity in support of policing priorities and objectives. Although the MOPAC intention is for enhanced partnership collaboration across public services and for the MPS to remain fully engaged, this has yet to be translated into a cohesive, plan to achieve these desired outcomes."
- A robust yet flexible framework to support coordinated collaboration with partners will be essential to developing effective partnerships that support policing priorities and objectives and deliver the promised outcomes for the people of London.

Command and Control Futures

- During the planning stages of this audit we learned that the Deputy Mayor for Policing and Crime (DMPC) for MOPAC, on the recommendation of the MPS, took the decision to terminate the contract with Northrop Grumman for a £90m command & control system responsible for handling 999 calls.
- The contract was terminated on the basis of the supplier's failure to deliver the command and control system in accordance with the contract. This included its failure to deliver in time for the originally planned October 2015 'go-live' date. We understand Northrop Grumman has disputed MOPAC's right to terminate the contract. Following this action there is potential for litigation between the parties.
- Although this project was a replacement (business as usual) system and did not have a savings target attached, the scale of sunk cost and potential for further costs arising from litigation make this a material consideration for our value for money conclusion.
- We have undertaken work to assess the arrangements in place for the procurement, management and delivery of the command and control futures programme and the information used to support the decision to terminate in March 2016. Our review has not identified any matters that impact our overall value for money conclusion.

During the year of audit, the previous Police and Crime Plan reached its conclusion. Central to this plan was the former Mayor's 20:20:20 challenge to the MPS. This included 3 ambitious targets for 'Better Policing for London'. These targets and the extent which they were achieved in the Police and Crime Plan period were set out in MOPAC's Annual Report 2016, summarised below.

Better Policing for London

- Cut neighbourhood crime by 20% - The Mayor challenged the MPS to reduce seven crime types – violence with injury, robbery, burglary, theft of and from a motor vehicle, theft from the person and criminal damage. These crimes are known as the MOPAC 7 and all are victim-based offences. Over the Police and Crime Plan Period all MOPAC 7 crimes have fallen, with the exception of Violence with Injury (VWI). MOPAC's 2016 annual report set out that there have been varying levels of reduction amongst the 7 crimes, which when aggregated have reduced by 18.4% between 2011/12 and 2015. This is above the England and Wales average of 11%.
- Increase confidence in the Police by 20% - The Mayor challenged the MPS to renew the relationship between police and public in the capital by increasing public confidence, as measured by the Crime Survey for England and Wales. MOPAC's 2016 annual report set out that confidence in the MPS, as measured by the Crime Survey for England and Wales (CSEW), climbed from 54.8% in 2008 to its highest ever level of 64% in December 2014. The latest available figure, contained in the Annual Report show that current confidence stands at 63.5%
- Cut costs by 20% - The Mayor challenged MPS to reduce its costs by 20% (from the 2012/13 Net budget of £2.6 billion), in order to make best use of its budget to modernise and provide a more effective service for Londoners, whilst ensuring best possible value for taxpayers' money. At time of writing, the MPS has delivered savings of £573m and has identified a further £290m of revenue budget savings up to 2020.

Swifter, Surer Justice

In addition to these, the Mayor set out further ambitions for improvements in the wider criminal justice system under the vision of moving towards 'Swifter, Surer justice', these ambitions, and the criminal justice sector's performance in realising them are set out below. :

- Cut delays on court processes by 20% - The Mayor challenged criminal justice partners to improve their service to deliver justice more swiftly. MOPAC's 2016 Annual report set out that this has contributed to an improved Magistrates Court performance overall in London and specifically at East London Local Justice Area levels, with most of London's Local Justice Areas out-performing others across England & Wales; a reduction in the time taken from 'offence to completion' by 4 days since the start of the Police & Crime Plan; and reduction in the time taken to deal with motoring offences (by 25 days). Despite these improvements, London is not on target to achieve the 20% reduction.

  It took 165 days from the offence being committed to the case completing in court in the rolling year to September 2015. This is an improvement from 168 days in 2011/12, and is now below the England and Wales average of 166 days - which is worsening as London's performance is improving - but it remains some way from the ambition of 134 days.
- Improve compliance with community orders by 20% - The Mayor challenged criminal justice agencies to ensure that offenders comply with the sentences imposed on them. In 2014/15, 81% of Community Orders in London were successfully completed, up from a figure of 77% in 2011/12. This improvement – from an already high level – is welcome, but is lower than expected to meet MOPAC's ambitious target to reach 92% in 2016/17.
- Bring down reoffending by young people leaving custody by 20% - The Mayor challenged agencies to tackle prolific offenders, who commit a substantial proportion of crime in the city and place a severe burden on the Criminal Justice System. Positive progress has been made against the Mayor's Police and Crime Plan Challenge to reduce reoffending by young people leaving custody by 20% - from 70.8% in March 2011 to 56.6% in November 2015.

Update of recommendation from our 2014/15 report

We have carried out a follow up review of our value for money recommendations made last year. This table sets out our findings.

2014/15 recommendation	Progress made	Implemented?
Consider whether the constraints and assumptions included in the December 2014 strategic outline case for the One Met Model 2020 should be retained in future updates to the business case, as they provided a useful summary of the high-level design principles informing the overall design.	The One Met Model 2020 blueprint and associated organisational design documents now encapsulates the assumptions and constraints. Outstanding information required to complete the blueprint is embedded and design principles are being progressed and tracked for approval by management board. We are therefore satisfied that this recommendation is on track.	**Yes**
Identified a 'senior supplier' role for each element of the portfolio, separately from the 'senior responsible officer'. This would ensure clearer accountability for the delivery of benefits, and create healthy tensions to further improve governance and risk management across the portfolio.	The Portfolio documentation reviewed clearly distinguishes between these roles and has identified others for further clarity e.g. Programme Director where there is a need to have an effective Deputy SRO. We are therefore satisfied that this recommendation has been implemented.	**Yes**
Refresh the technology strategy (and any other significant supporting strategies) as the organisation's requirements become clearer following the OMM 2020 design phase.	To an extent, the strategies have now been superseded or incorporated in the OMM suite of documents and transformation plans. The recommendation is therefore no longer applicable.	**Superseded**
Consider bringing reporting lines for transformation activity within Digital Policing in to line with reporting lines for other elements of the overall transformation programme. Current arrangements may mean that interdependencies between technology change and other types of transformation are not identified and managed effectively.	This has now been completed and Digital Policing is now incorporated within the Portfolio. The CIO still reports to the Deputy Commissioner but progress against the transformation is reported through the Portfolio with investment decisions going through the JIB as with other areas of the business. We are therefore satisfied that this recommendation has been implemented.	**Yes**
Undertake further work to cost the Digital Policing capital and revenue budget over the next 5 years, given that the OMM 2020 'enterprise view' suggests significant investment in new technology will be needed to deliver the anticipated benefits.	Further work has been carried out which reflects savings to the revenue budget. This shows an undershoot of expected savings and therefore shows the exercise was worthwhile.	**Yes**
Ensure sufficient priority is accorded to cultural change, including investing more resources in the Total Professionalism programme, given that it is about to implement such an ambitious and far-reaching major change programme.	We are satisfied that through the development of the One Met Model and the Portfolio, sufficient priority is being given to cultural change and the resource implications are being appropriately addressed.	**Yes**
Develop a longer-term, strategic approach to the identification and delivery of cost-saving initiatives, given that the current portfolio contains projects creating planned savings of just £110 million against a target of £760 million.	The financial challenge has reduced, however, the remaining savings are still substantial and further identification is required.	**In progress**

Update of recommendation from our 2014/15 report

2014/15 recommendation	Progress made	Implemented?
Consider how best to develop staff with the financial planning and analysis skill set required for a programme of this scale, and ensure that sufficient staff with this capability are dedicated to the programme, to provide greater clarity about the overall costs and benefits associated with OMM 2020.	It is still apparent that full costs and benefits are not fully understood. Work is progressing here with the appointment of Deloitte to facilitate challenge in the Portfolio programme and enhance the ability of staff to deliver. There are also ongoing discussions to attach finance business partners to this organisation.	**In progress**
Ensure the costs and benefits of the change programmes are disaggregated from the base budgets and reported in sufficient granularity to enable effective monitoring, scrutiny and identification of non-delivery of anticipated benefits. Note that this repeats a recommendation from our 2013/14 audit findings report.	There has been improved clarity over the disaggregation of costs and benefits of existing savings schemes, however, it will be critical to ensure that, as the change programmes in relation to the OMM 2020 are implemented, that these are all clearly disaggregated from base budgets.	**Partial**
Implement the recommendations from the DARA Capital Programme Control Framework review, which we endorse, as current arrangements for capital expenditure forecasting and planning suggest either that current forecasts are inaccurate, or that strategic objectives for the capital programme are not being met.	Progress has been made to implement the recommendations from the review. We have noted that the scale of the capital programme has expanded significantly up to 2020. It is important to ensure there is sufficient capacity to provide effective planning and monitoring of the capital programme going forward.	**Partial**
Ensure that interdependencies between the Commercial Strategy and the Total Professionalism programme are identified and managed appropriately, given that both aim to achieve significant cultural change across the organisation.	We are satisfied that the Portfolio should now better manage any overlaps across these and other initiatives. We are therefore satisfied that this recommendation has been implemented.	**Yes**
Update the medium-term financial plan with the latest estimates of planned investment and anticipated savings from the business support services outsourcing arrangement.	This recommendation has been implemented and the medium term financial plan includes the expected savings from this initiative. We have, however, noted that the latest estimates of planned savings in relation to ICT outsourcing have not yet been applied to the financial plans.	**Yes (NB - ICT element outstanding)**
Ensure transparency of progress and achievement, reporting delivery of in year budgets separately from achievement of planned, transformative and recurrent savings in line with your strategic objectives.	There has been improved clarity over the disaggregation of costs and benefits of existing savings schemes, however, it will be critical to ensure that, as the change programmes in relation to the OMM 2020 are implemented, that these are all clearly disaggregated from base budgets.	**Partial**

Appendix A: Joint value for money action plan 2015/16

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The MPS and MOPAC should ensure that measures for the delivery of the overall vision are closely aligned at an early stage to the forthcoming Police and Crime Plan.	High		
2.	It is vital that when developing a measurement (planned to be based on the Rotterdam City Safety Index) for the tracking of performance against the overall desired outcomes embodied in the MPS vision: • Meets the requirements of both the MPS and MOPAC as well as wider partners to inform the work they are contributing to the vision • Once developed, the measurement should be managed independently of the governance and delivery for OMM 2020 to ensure it remains a robust tool to deliver the vision and drive change beyond that.	High		
3.	To deliver the OMM 2020, appropriate individuals should be identified as 'Business Change Managers' at an early stage. They should be experienced in the specific business area and have sufficient support and training in benefits management.	High		
4.	Alongside the usual delivery metrics, the Portfolio should develop a set of key performance indicators to assess the progress towards the overall vision, informed by work on the CSI style measurement.	High		

Appendix A: Joint value for money action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5.	Continue with the identification of cost-saving initiatives to identify the remaining £100m of savings required by 2019/20. Ensure there is sufficient 'headroom' within the plans to support non-delivery of schemes. Review the revised revenue savings from the ICT outsourcing programme and ensure it is reconciled with the medium term financial plans.	High		
6.	Ensure the costs and benefits of the change programmes are dis-aggregated from the base budgets and reported in sufficient granularity to enable effective monitoring, scrutiny and identification of non-delivery of anticipated benefits. Note that this is a continuation of a recommendation from our 2014/15 and 2013/14 audit findings reports.	High		
7.	Given the scale of the planned capital programme, ensure there is sufficient resilience and capacity to effectively plan and monitor the programme overall.	High		
8.	The MPS and MOPAC should work together to co-create a performance management framework that is not burdensome on either organisation, but that facilitates effective oversight of the MPS.	High		

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Audit Committee Update for the Mayor's Office for Policing and Crime and the Commissioner of Police of the Metropolis

31 March 2017

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Introduction

This paper provides the Joint Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Joint Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- New laws to prevent fraud may affect the public sector (November 2016); http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/
- Fraud risk, 'adequate procedures', and local authorities (December 2016); http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/
- Brexit: local government – transitioning successfully (December 2016); http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/
- Power check: Reviewing the effectiveness of Police accountability. (June 2016) http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/power-check-pcc-and-pcp-police-report.pdf

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager. Their contact details are provided on the front page of this update.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Progress to date

2016/17 work	Planned Date	Complete?	Comments
Accounts Audit Plan We are required to issue a detailed accounts joint audit plan covering the audit for MOPAC / the MPS setting out our proposed approach in order to give an opinion on the group financial statements, including the statements of the MPS in 2016/17.	June 2017	In progress	We continue to assess the risks facing you and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate. Our Audit Plan is in draft form and is currently being discussed with management, with a view of finalising and sharing with Those Charged With Governance in April / May 2017.
Interim accounts audit Our interim fieldwork visits covers work on both MOPAC and MPS arrangements, including: • updating our review of the control environments • updating our understanding of financial systems • review of Internal Audit reports on core financial systems overall arrangements in accordance with auditing standards • early work on emerging accounting issues • early substantive testing for the first ten months of the year, specifically testing on: - employee remuneration, including overtime - operating expenditure - additions and disposals of fixed assets - valuations of fixed assets - fees, charges and other income - journal entries • continuing risk assessments for our value for money conclusions.	January - March 2017	In progress	We will: • Engage with the finance team to streamline and improve the audit approach for 2016/17 where possible; • Discuss any technical issues early; • Undertake as much early testing as possible, specifically the MPS Corporate Finance department have produced a month 10 'hard close' of its financial systems; this will allow us to undertake early substantive testing of a sample of transactions for the first ten months of the financial year.

Progress to date

2016/17 work	Planned Date	Complete?	Comments
Final accounts audit Including: • top-up testing of areas commenced during the interim audit • complete audit work on other areas of the 2016/17 financial statements • proposed opinion on MOPAC and MPS's accounts	June – July 2017	Not yet due	We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. We will report our findings from this work to the Audit Panel in September via our Audit Findings Report.
Value for Money (VfM) conclusion The Code requires us to consider whether MOPAC and the MPS have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. These are known as the Value for Money (VfM) conclusions. We issue separate conclusions for MOPAC and the MPS. The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. It identifies one single criterion for auditors to evaluate: In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people. This is supported by three sub-criteria as set out below: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	March 2017 to July 2017	In progress	Our Audit Plan, detailing significant risks, is in draft form and is currently being discussed with management, with a view of finalising and sharing with Those Charged With Governance in April / May 2017. Our work on the VfM Conclusion will include attending meeting with key Senior Officers and key document reviews.
Annual Audit Letter We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.	December 2017	Not yet due	

Police Sector Accounting and other issues

The Policing and Crime Act 2017

A key bill in the police reform agenda achieved Royal Assent on 31 January 2017. The Policing and Crime Act 2017 will enhance the democratic accountability of police forces and fire and rescue services, improve the efficiency and effectiveness of emergency services through closer collaboration, and build public confidence in policing. The act includes provisions which will:

- reform pre-charge bail to put a stop to people remaining on bail for lengthy periods with no independent judicial scrutiny of its continued necessity
- better enable chief officers to make the most efficient and effective use of their workforce by giving them the flexibility to confer a wider range of powers on police staff and volunteers (whilst for the first time specifying a core list of powers that may only be exercised by warranted police officers) and conferring a power on the Home Secretary to specify police ranks in regulations, thereby affording the flexibility to introduce a flatter rank structure
- place a new duty on police, fire and rescue and emergency ambulance services to collaborate where it is in the interests of their efficiency or effectiveness and enable police and crime commissioners (PCCs) to take on responsibility for the governance of fire and rescue services, where a local case is made
- improve the response to those in mental health crisis - including stopping those under 18 from being detained in a police station - and restricting such detention for adults - by reforming police powers under sections 135 and 136 of the Mental Health Act 1983
- reform the police disciplinary and complaints systems to ensure that the public have confidence in their ability to hold the police to account, and that police officers will uphold the highest standards of integrity
- increase in the maximum sentence for stalking involving fear of violence from five to ten years' imprisonment
- amend the Police and Criminal Evidence Act 1984 (PACE), including to ensure that 17-year-olds who are detained in police custody are treated as children for all purposes, and to facilitate the increased use of video link technology
- amend the firearms acts to better protect the public by closing loopholes that can be exploited by criminals and terrorists, and by issuing statutory guidance to ensure that the robust processes we have in place for assessing suitability to hold a firearms certificate are applied consistently
- confer pardons, subject to conditions, for individuals living or deceased who were convicted of now abolished gay sex offences
- improve protection for victims of forced marriage and give them more confidence to come forward by providing them with lifelong anonymity.

Further details can be found at https://www.gov.uk/government/collections/policing-and-crime-bill

The Home Affairs Committee launched an inquiry into policing for the future: changing demands and new challenges.

Advances in technology have led to the emergence of new forms of crime, and have enabled other crimes to move online, changing their nature and impact on victims and communities. Technological change has also generated new opportunities for the police, at a time of increasing focus on efficiency and innovation. Against this backdrop, there remains a complex relationship between public expectations of the police and the operational realities of modern-day policing. Police forces collectively have seen funding reductions of about 19% since 2010/11, accompanied by a significant reduction in the size of the police workforce. Many crimes are under-reported to the police and require proactive engagement with certain communities, and a large proportion of police time is devoted to non-criminal activity, such as mental health crisis work.

This inquiry explores the challenges of modern policing, and examines whether police forces in England and Wales are sufficiently equipped and resourced to keep the public safe and to respond effectively to evolving demands and changing patterns of crime.

At the launch of the enquiry, the Chair of the Home Affairs Select Committee, Yvette Cooper MP said:

"Police forces are facing multiple new and emerging challenges in their quest to protect the public from harm, including the growth of online crime and the pressures generated by non-crime demands, such as mental health crisis work. Ongoing funding reductions mean there is continuing demand for new efficiency measures, and technological change provides new opportunities for innovation.

Against this backdrop, the Home Affairs Committee is launching a major inquiry into 'Policing for the Future', to examine whether the police have appropriate capabilities to deal with modern challenges to public safety, changing patterns of crime, and new ways of engaging with the public whom they serve. We are seeking written and oral evidence on the reforms which might be required to ensure that our police are fit for purpose, cost effective and open to innovation and technological change."

- Written evidence (deadline for submission was 16 February 2017) was invited on the issues set out below:
- Reforms which may be necessary to ensure the police service has the ongoing capacity and capability to fulfil its primary task of ensuring public safety, in the face of new and evolving threats and challenges.
- Current and future crime trends and their implications for policing in England and Wales, including emerging or growing categories of crime (such as online crime and child sexual abuse) and under-reported types of crime.
- The extent to which the police are sufficiently equipped to deal with these changing patterns of crime and other operational demands, such as mental health crisis work, and where gaps in capacity and capability are likely to lie.
- The relationship between public expectations of the police, including desired visibility and perceived priorities, and the operational realities of policing within the current financial context.
- Police funding levels, efficiency and cost-effectiveness, including the role of Police & Crime Commissioners (PCCs) in driving innovation and reform.
- The role of digital technology in policing, including take-up, risks and barriers to use.
- International best practice examples of innovation in policing, and the extent to which they could be replicated in England and Wales.

Further details can be found at https://www.parliament.uk/business/committees/committees-a-z/commons-select/home-affairs-committee/news-parliament-2015/170111-new-inquiry-policing-future/

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Delivering Good Governance

In April 2016, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. Guidance notes for Policing bodies in England and Wales were also published to assist PCCs and chief constables in reviewing and testing their governance arrangements against the principles for good governance. They help interpret the principles and terminology contained in the Framework in a way that is appropriate for the constitutional and statutory arrangements established within the police service. The guidance notes were drawn up in conjunction with the professional officer organisations in policing. Members of the Association of Policing and Crime Chief Executives (APACE), the Police and Crime Commissioners Treasurers’ Society (PACCTS), and the National Police Chiefs’ Council (NPCC).

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Policing bodies should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

Restricting the use of police cells for those experiencing a mental health crisis

The Home Office will take forward legislation to greatly restrict the circumstances when a police cell can be used. The Government has been clear that police cells are a poor environment for any person experiencing a mental health crisis. They can make service users feel criminalised and exacerbate levels of distress. This is especially true for those under the age of 18 - yet in 2014/15 more than 150 children and young people were detained in police cells.

Changes to the Mental Health Act will be made under the forthcoming Policing and Crime Bill. They include:

- Banning police cells as a "place of safety" for under-18s.
- Creating regulations to limit the circumstances in which police cells can be used a place of safety for adults.
- Reducing the maximum duration of detention for the purposes of an assessment under the Act from 72 to 24 hours.
- Widening the current definition of a place of safety to increase local capacity and flexibility.
- Extending police officers' powers to act quickly to detain and remove people experiencing a mental health crisis from any place other than a private dwelling (for which a warrant would still be required).
- Requiring police officers to consult health professionals before detaining someone under the Act's provisions.
- Clarifying that assessments under the Act can take place in a private dwelling.

A 2014 review of the sections 135 and 136 of the Mental Health Act found people were being detained in police cells because of a lack of available health-based places of safety, whether this was due to capacity issues, staffing levels or opening hours. In May 2015 Home Secretary Theresa May announced up to £15 million of funding to provide health-based alternatives to police cells. Additional provision will be focused on the areas of the country where use of police cells is highest.

The Government has already implemented a range of measures to improve the care people receive and to reduce the burden on police officers, including street triage, liaison and diversion, the Crisis Care Concordat and an alternative place of safety pilot in Sussex for people detained under Sections 135 and 136. These measures have contributed to an almost 50% reduction in the number of times police cells were used as a place of safety in England and Wales between 2011/12 and 2014/15, but progress is highly variable across the country with five police force areas accounting for more than half of all uses of police cells. This change in legislation will put an end once and for all to the practice of using police cells simply because there is no suitable alternative available and ensure that all suffers of mental health, no matter where they live, are cared for in the proper environment.

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Ofsted concerns around police approach to child protection

In a letter dated 18 October 2016, Ofsted's Chief Inspector, Sir Michael Wilshaw, wrote to Her Majesty's Chief Inspector of Constabulary, Sir Tom Winsor to highlight evidence of a number of concerns of increasing weaknesses in how police forces are discharging their child protection responsibilities. The letter draws attention to cases noted from their recent inspections where police forces were not:

- sharing information about domestic abuse cases in a timely way
- notifying social workers quickly enough when children went missing
- attending important child protection conferences
- carrying out joint child protection visits with social workers
- tackling DBS (Disclosure and Barring Service) backlogs

In particular, the letter highlights deficiencies in processes for the sharing of information with local authorities on child protection and domestic abuse incidents in the respect that at many forces, notification of local authorities of incidents is taking in place in batches, rather than as soon as incidents are reported to the police. This has led to delays in response of local authorities to such incidents, in some cases by several weeks.

Overall, the letter raises concerns of Ofsted that , in the current difficult operating climate with significant demand pressures at a time when limited resources are available for policing, Chief Constables are failing to give sufficient priority to child protection cases.

Further details can be found at: https://www.gov.uk/government/publications/child-protection-the-police-approach

Criminal Finance Bill

The Criminal Finance Bill was introduced to the House of Commons in October 2016 and is intended to improve the government's ability to tackle money laundering, counter terrorist funding and recover the proceeds of crime. The new powers granted by the Bill are intended to strengthen law enforcement agencies' ability to disrupt criminal funding, and allow the recovery of criminal property.

The Bill will grant law enforcement agencies additional power to seize the proceeds of crime and suspected money laundering beyond those currently granted by the Proceeds of Crime Act 2002 and will bring new powers to seize precious metals, precious stones and artistic works where there are grounds to believe that they are the proceeds of crime or are being used to commit further offences. The Bill will also grant additional powers to freeze and forfeit the proceeds of crime held in bank accounts.

Additional key provisions of the Bill are as follow:

- **Corporate failure to prevent tax evasion** – The Bill will create new criminal offences for corporations who fail to stop their staff facilitating tax evasion. This includes a "domestic fraud offence" that criminalises corporations who fail to put in place reasonable procedures to prevent their representatives from criminally facilitating tax evasion and an "overseas fraud offence" which criminalises corporations carrying out business in the UK who fail to put in reasonable procedures to prevent their representatives from facilitating tax evasion in another jurisdiction.
- **Unexplained Wealth Orders** – The Bill will create a new regime for law enforcement agencies to issue Unexplained Wealth Orders (UWOs), which will mean an individual or company will have to explain the origin of assets that appear to be disproportionate to their known income and if they are suspected of involvement in, or association with serious criminality.
- **Terrorist financing** – The Bill will add make changed to the current regime for combating terrorist financing by extending certain investigative powers, introducing new disclosure orders as a means for gathering information, and introducing arrangements for extending powers to seize assets to prevent their use for funding terrorism.

Further details can be found at: https://www.gov.uk/government/collections/criminal-finances-bill

Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – http://www.grantthornton.co.uk/industries/public-sector/

'Power Check' – Reviewing the effectiveness of police accountability

Background

Our report reviews the effectiveness of police accountability arrangements and seeks to help panel members and PCCs learn the lessons from the first term and build arrangements for the second term to continue to improve the effectiveness of police accountability.

Key findings from our report are:

- Panels and PCCs did not agree on the main barriers to effectiveness. 93% of panels cited limited barriers as a top three barrier to their effectiveness, while only 37% of PCCs rated it as a top barrier. 34% of PCCs considered 'political allegiances' to be a top three barrier to panel effectiveness
- Panel effectiveness and influence may be increased by greater public interest in the panel's work. Panels should ensure their work resonates with the public by selecting the right topics, responding swiftly to issues affecting the PCC and ensuring their challenge and support is insightful and adds value
- Only around half of PCCs and panels felt panels got the balance right between challenge and support. PCCs considered panels were more effective in their support work than in their challenge work. Only 42% of panel members viewed their proactive scrutiny work as being very or extremely successful
- 61% of PCCs said that recommendations or observations from PCPs sometimes influenced or changed their decision-making, with only 18% saying their decision making was always or mostly influenced by the panel's work

The report includes a series of recommendations to help strengthen the effectiveness of policing accountability arrangements.

Available at:
http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/power-check-pcc-and-pcp-police-report.pdf

Integrated Reporting

Grant Thornton publications

Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

Integrated reporting: Looking beyond the report was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as *"enhancing the way organisations think, plan and report the story of their business."*

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

Challenge question:

- Have you thought about how the principles of Integrated Reporting can help your organisation become more focussed?

Integrated Thinking and Reporting

CIPFA Publications (co-authored by Grant Thornton secondees)

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders.*

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

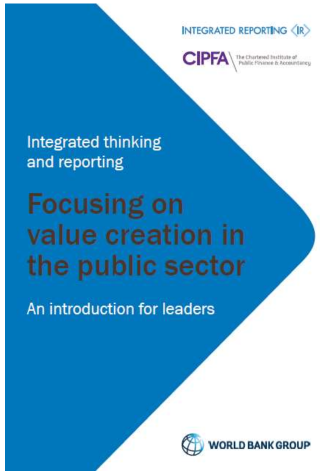
Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



Apprentice Levy-Are you prepared?

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: 250 x £20,000 = £5,000,000

Levy sum: 0.5% x = £25,000

Allowance: £25,000 - £15,000 = £10,000 annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

Grant Thornton update

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working in the public sector "IR 35 rules"

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of "*consistency, certainty and simplicity*"

When the proposals were originally made, the public sector was defined as those bodies that are subject to the Freedom of Information rules. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

Impact

- Increased costs
- Responsibility moved to the engager
- Increased risks for the engager
- Consider current arrangements in place

Areas / risks to consider

- Interim and / or temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll

Salary Sacrifice Arrangements-Autumn Statement

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

What should you be thinking about?

- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Brexit

Grant Thornton update

Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a "Repeal Act" (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Challenge questions:

- Have you assessed the potential impact of Brexit on the OPCC and force?
- Do your risk registers include Brexit and is this regularly updated and reported?

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

Brexit (continued)

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

For regular updates on Brexit, please see our website:

http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/

CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their public sector body, instant access to insight on the financial performance, socio-economy context and service outcomes of a variety of public sector bodies in England, Scotland and Wales.

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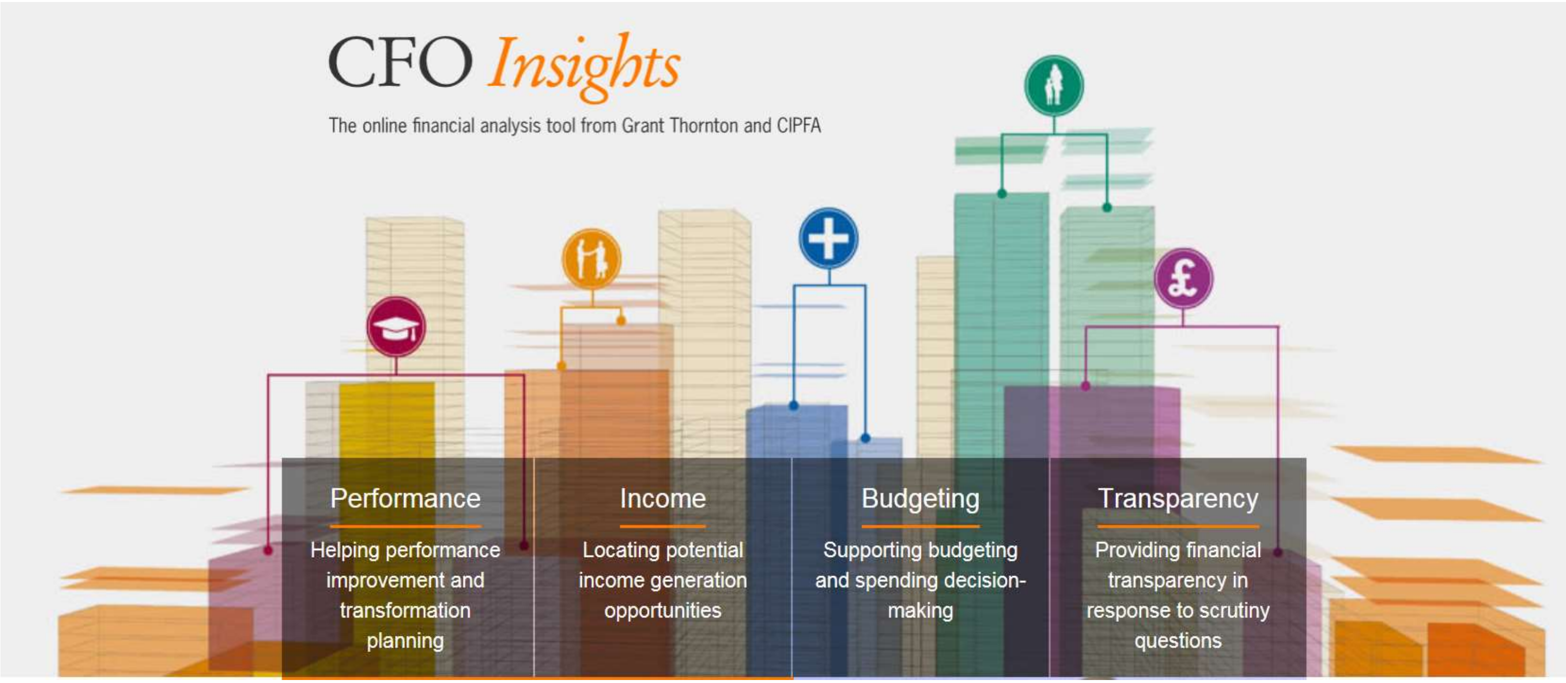
The tool provides a three-dimensional lens through which to understand income and spend by category, the outcomes for that spend and the socio-economic context within which organisation operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.



We are happy to organise a demonstration of the tool if you want to know more.

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