

AUDIT PANEL

Friday, 30 June 2017

External Audit

Report by: MOPAC Chief Finance Officer
and MPS Director of Commercial and Finance

Report Summary

Overall Summary of the Purpose of the Report

This paper updates the Audit Panel on the progress and reporting of external audit work, and the procurement of an external audit service.

Key Considerations for the Panel

To note external audit work and the procurement progress.

Interdependencies/Cross Cutting Issues

The external audit function provides an independent opinion on the financial accounts and the arrangements for delivering value for money which inform the AGS.

Recommendations

The Audit Panel is recommended to:

- a. Note the external audit joint audit plan and its progress
- b. Note progress on the procurement of an external audit service via the PSAA national procurement process

1. Supporting Information

Grant Thornton External Audit Plan

- 1.1. The Grant Thornton Joint Audit Plan (Appendix 1) provides the progress to date against the planned engagement work in preparing for, and undertaking the external audit of the 2016/17 accounts.
- 1.2. In undertaking the audit of the financial statements Grant Thornton (GT) start from a point of focussing on risks (pages 6-14 of Appendix 1). In summary, on 'significant' issues GT have assessed that there is not significant risk arising from revenue recognition, and have set out work completed to date and that to follow in respect of management over-ride of controls, the pension fund net liability and valuation of property, plant & equipment.
- 1.3. On 'other' risks, again GT have set out the work undertaken to date and that planned to address year end creditors and accruals, police pensions benefits payable, employee remuneration and changes required to the presentation of the financial statements.
- 1.4. GT are required to provide an opinion on whether proper arrangements are in place for securing economy, efficiency and effectiveness in the use of resources, the Value for Money conclusion. Following an initial risk assessment GT have identified the following four areas of risk and have set out the work they will undertake to address these.
 - How well aligned the MPS delivery arrangements are to the Police & Crime Plan and the effectiveness of arrangements to monitor, measure and report progress within both MOPAC and MPS;
 - OMM progress and alignment with Police & Crime Plan, and the understanding of the costs and benefits, and interdependencies of the remaining commercial strategy programmes;
 - The articulation and delivery of benefits realisation against plan
 - Realisation of benefits from SSCL, fleet and catering commercial activities
 - Understanding medium term financial strategy and actions taken to address budget shortfall and identification of savings.
- 1.5. The following sets out the results of GT's interim work
 - Internal Audit – concluded that the internal audit service provides a independent and satisfactory service, and there has been no identification of weaknesses impacting on GT audit approach
 - Entity level controls – no material weaknesses identified
 - IT controls – work in progress
 - Walkthrough testing – work to date has not identified any weaknesses impacting on GT audit approach
 - Journal entry controls - work in progress

- 1.6. GT expect to report their draft audit findings to management by the end of July, followed by issuing the Annual Audit Letters.

Procurement of External Audit

- 1.7. The procurement of the external audit service is running to schedule. PSAA expect to award the contracts in July, with the appointment of external audit firms to specific bodies between August and December. The cost is expected to be finalised by March 2018.
- 1.8. Progress and key activities are set out below, with further information at Appendix 2
- 98% opt-in rate by audited bodies
 - 10 firms completed selection questionnaire responses, 9 were invited to tender, and 8 ITT responses were received
 - Public Sector Audit Appointments Ltd (PSAA) state that the quality of the bids was pleasing
 - PSAA Board would make the contract awards with the expectation of signing contracts by the start of July
 - appointments made by PSAA following consultation with authorities - timing of the consultation phase during the period 14 Aug to 22 Sep
 - representation periods during October and November if issues over the proposed appointment
 - finalised appointments by 31 December 2017
 - scale fee would be set for each authority by 31 March 2018.
 - if there was a change in auditor there would be a managed handover

2. Equality and Diversity Impact

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

3. Financial Implications

The planned external audit cost for 2017/18 is £252k which is budgeted for within MPS and MOPAC.

4. Legal Implications

There are no direct legal implications arising from the report.

5. Risk Implications

There are no direct risk implications arising from the report.

6. Contact Details

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7. Appendices and Background Papers

Appendix 1 – Grant Thornton Joint Audit Plan
Appendix 2 – Extracts from PSAA Advisory Panel

Joint Audit Plan for Mayor's Office for Policing and Crime and the Commissioner of Police of the Metropolis

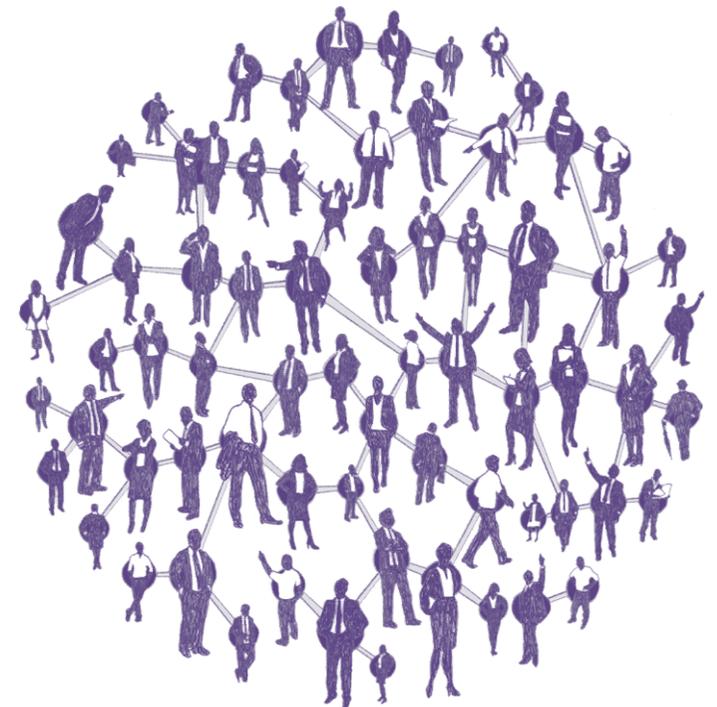
Year ended 31 March 2017

June 2017

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June 2017

Dear Sophie and Cressida

Joint Audit Plan for the Mayor's Office for Policing and Crime and the Commissioner of Police of the Metropolis for the year ending 31 March 2017

This joint Audit Plan sets out, for the benefit of those charged with governance (in this case, the Deputy Mayor for Policing and Crime for the Mayor's Office for Policing and Crime (MOPAC), and the Commissioner for the Metropolitan Police Service (MPS)), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the financial statements of MOPAC, the MPS and the Group
- satisfy ourselves the Deputy Mayor and the Commissioner have each made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 the MOPAC or the MPS or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Paul Grady
Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Key appointments

A new Deputy Mayor for Policing and Crime (DMPC) was appointed in June 2016. A new Commissioner took office in April 2017.

Changes at the highest level of governance bring new perspectives and potential changes in direction and strategy. Key to successful transition is the alignment of strategic vision across both organisations and effective communication to ensure transformation programmes deliver outcomes to the scale and pace required, and planned.

Transformation

The blueprint for your One Met Model remains key to setting the direction of the MPS and transforming the way you work.

The Commercial strategy is key to the transformation of the organisation and sustained financial viability,

These will both need to align with the strategic objectives of the Police and Crime Plan

Police and Crime Plan

The first Police and Crime Plans created by PCCs covered the four years between 2013 and 2017.

Each PCC is required to have created a new Police and Crime Plan, to cover the four years 2017 to 2021, by 31 March 2017.

MOPAC has published the plan on 20 March 2017.

Key challenges

Police Funding Formula

At the beginning of 2016, the implementation of the revised police funding formula in England and Wales was delayed.

These revisions are still expected to be implemented, perhaps as soon as the 2018/19 financial year.

For some forces this may represent a significant reduction in annual funding, and will have an impact on forward planning.

Delivery of medium-term financial strategy

As at 31 December 2016, the MPS is still confident that £81.4m of the £126.9m savings target will be delivered in 2016/17 and a further £8.8m in 2017/18. There is high risk of non-delivery of £36.7m, which includes £26.9m of Digital Policing (DP) savings built in the original savings target.

We will review your financial planning and budgeting arrangements and assess the achievability of the savings targets.

Key performance indicators

Measure	Value	Month 9 position
Budget	£2,498m	£11.8m underspend
Savings plans	£126.9m	High risk of non-delivery of £36.7m

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

We are working closely with the MPS to ensure compliance with the new Code changes and have already held a multi-client meeting to agree ways forward.

Earlier closedown

The Accounts and Audit Regulations 2015 require authorities to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

MOPAC and the MPS achieved the 31 July deadline in both of the previous two years and you are once again committed to a 31 July deadline for 2016/17.

Our response

- We aim to complete all our substantive audit work of your financial statements by early July
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will review both MOPAC's and the MPS's progress in managing their responsibilities and how they are working to deliver transformation, as part of our work in reaching our VfM conclusions.
- We will review the arrangements in place for the delivery of the new Police and Crime Plan throughout MOPAC and the MPS as part of our work in reaching our VfM conclusions and our consideration of your governance arrangements during our audit.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based on professional judgment in the context of our knowledge of the MOPAC and the MPS. We have calculated materiality for the statements as a whole as a proportion of the smaller of gross revenue expenditure of the MOPAC less the actuarial adjustment for injury pensions and gross revenue expenditure of the MPS less the actuarial adjustment for injury pensions. For the purposes of planning the audit **we have determined overall materiality to be £61,931k** (being 1.85% of the gross revenue expenditure less the actuarial adjustment for injury pensions of the MPS). Our assessment of materiality is kept under review throughout the audit process and will advise you if we revise this during the audit.

Under ISA 450, auditors 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 accumulation of such amounts would have a material effect on the financial statements. 'Trivial' matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. **We have defined the amount below which misstatements would be clearly trivial to be £3,097k.**

ISA 320 also requires auditors to determine separate, lower, materiality levels if there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have not identified any areas where separate materiality levels are required.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Relevant to MOPAC / MPS / Both?	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Both	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at MOPAC, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including MOPAC, mean that all forms of fraud are seen as unacceptable <p>Therefore we have determined that the risk of fraud arising from revenue recognition is not a significant risk for the MOPAC</p> <p>For the MPS, revenue is recognised to fund costs and liabilities relating to resources consumed in the direction and control of day-to-day policing. This is shown in the MPS's financial statements as a transfer of resources from the MOPAC to the MPS for the cost of policing services. Income for the MPS is received entirely from the MOPAC.</p> <p>Therefore we have determined that the risk of fraud arising from revenue recognition is not a significant risk for the MPS</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

Significant risk	Relevant to MOPAC / MPS / Both?	Description	Audit procedures
Management over-ride of controls	Both	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have reviewed accounting estimates, judgments and decisions made by management up to period 10 • We have performed a walkthrough of the journals process to gain assurance that the in-year controls are implemented in accordance with our documented understanding. • Based on our understanding of the journals control environment, the results of other risk assessment procedures and our cumulative knowledge of the MPS and MOPAC, we have designed a testing strategy to identify unusual journal transactions we consider to be high risk • Performed detailed testing of high risk journals up to period 10 <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review accounting estimates, judgments and decisions made by management up to period end • We will perform detailed testing of high risk journals up to year end

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Relevant to MOPAC / MPS / Both?	Description	Audit procedures
<p>Valuation of pension fund net liability</p>	<p>MPS</p>	<p>The MPS's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>This estimate by its nature is subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have identified the controls put in place by management to ensure that the pension fund liability is not materially misstated, including the controls to ensure the data sent to the actuary is complete and accurate. • We have assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Significant risks identified (continued)

Significant risk	Relevant to MOPAC / MPS / Both?	Description	Audit procedures
<p>Valuation of property, plant and equipment</p>	<p>MOPAC</p>	<p>MOPAC revalues its assets on a rolling basis over a five year period.</p> <p>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.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have reviewed management's processes and assumptions for the calculation of the estimate • We have reviewed the competence, expertise and objectivity of any management experts used • We have reviewed the instructions issued to valuation experts and the scope of their work • We have corresponded with the valuer about the basis on which the valuation is carried out and challenged key assumptions • We have reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • We have performed testing of data provided to the valuer to gain assurance it is complete and accurate <p>Further work planned:</p> <ul style="list-style-type: none"> • We will perform testing of revaluations made during the year to ensure they are input correctly into the MOPAC's asset register • We will evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Relevant to MOPAC / MPS / Both?	Description of risk	Audit procedures
Operating expenses	Both	Year end creditors and accruals are understated or not recorded in the correct period.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to identify the controls put in place by management to ensure operating expenses is not materially misstated. • We have then assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces • We will test invoices received after year-end to identify potential unrecorded liabilities • We will review payments made after year-end specifically those deemed to be large or unusual and test for payment cut-off.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Reasonably possible risks	Relevant to MOPAC / MPS / Both?	Description of risk	Audit procedures
Police Pensions Benefits Payable	MPS	Benefits improperly computed / Claims liability understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to identify the controls put in place by management to ensure benefits payable in respect of police pensions is not materially misstated. • We have then assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We have conducted substantive testing of lump sum payments to new pensioners up to period 10. In addition to obtaining assurance lump sum payments are calculated correctly, we also verified that the associated recurring pension payments to each new pensioner has been calculated and accounted for correctly. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will complete our substantive testing of lump sum payments to new pensions up to period end • We will complete a substantive analytical review procedure on total pensioner payroll to gain assurance benefits payable is not material misstated.
Employee remuneration	Both	Employee remuneration accruals are understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to identify the controls put in place by management to ensure employee remuneration is not materially misstated. • We have then assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will test the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces • We will conduct an analysis of trends and relationships to identify any anomalous areas for further investigation

Other risks identified (continued)

Other risks	Relevant to MOPAC / MPS / Both?	Description	Audit procedures
<p>Changes to the presentation of Police financial statements</p>	<p>Both</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • In January 2017 we hosted a round table discussion with a number of police forces including the MPS to facilitate a discussion regarding the new changes and the potential implications on the financial statements. • We have documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We have reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with MOPAC / MPS's internal reporting structure. • We have reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). <p>Further work planned:</p> <ul style="list-style-type: none"> • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include

- Assets held for sale
- Investments (long and short term)
- Cash and cash equivalents
- Debtors (long and short term)
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Police Pension Fund Account and related note

Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Planned audit approach
MOPAC (parent)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton UK LLP
MPS (subsidiary)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton UK LLP

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the component's financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Value for Money

Background

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 the Police and Crime Commissioner and for the Chief Constable.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Police and Crime Commissioner and Chief Constable have each put proper arrangements in place.

The NAO guidance 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 to the right:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of both 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 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.

We have identified significant risks which we are required to communicate to you. These are set out overleaf

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Joint Audit Findings Report and in the Annual Audit Letter. We will issue a separate report in respect of VfM. We will include our conclusion in our auditor's report on your financial statements which we will give by 31 July 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Relevant to MPS / MOPAC / Both	Work proposed to address
<p>1. Police and Crime Plan The new Police and Crime Plan to cover the four years 2017 to 2021 was published on 20 March 2017.</p> <p>The draft plan sets out the Mayor's ambition to make London a safer city for all Londoners. This is not inconsistent with the MPS's existing vision – for London to be 'consistently the world's safest global city.' Key to the delivery of the plan, once adopted, will be how well aligned the MPS' delivery arrangements are to the requirements of the plan and the effectiveness of the processes and arrangements in place to monitor, measure and report progress within both MOPAC and the MPS.</p>	<p>Informed decision making</p> <p>Sustainable resource deployment</p> <p>Working with partners and other third parties</p>	Both	<ul style="list-style-type: none"> Review the arrangements in place for the implementation and delivery of the new Police and Crime Plan. Review the processes and arrangements in place between MOPAC and the MPS to ensure alignment with the Plan priorities Review understanding of the cost of implementation of the police and crime plan and the effectiveness of the measures in place to identify progress and achievement of delivery. Assess governance and oversight arrangements for effectiveness.
<p>2. One Met Model and overarching portfolio management The Target Operating Model (TOM) for the MPS remains key to setting the direction of the MPS under the One Met Model.</p> <p>In our work last year we saw progress over how programmes and projects tie together. We will continue to review progress in the year to date, and assess how well these arrangements align with the requirements of new Police and Crime Plan. We will look to update our assessment of overall maturity.</p> <p>We will assess how well the MPS understands the global cost and benefits of the transformation portfolio, progress in driving ownership of benefits at the business change manager level, and how well the interdependencies are understood in respect of the four remaining commercial strategy programmes.</p>	Sustainable resource deployment	MPS	<ul style="list-style-type: none"> Assess progress and development from the position in Summer 2016. Assess understanding of global cost and benefit of transformation programme and ownership of benefits within the portfolio Examine dependencies and links from the TOM to the existing Portfolio of Programmes and Projects and examine any gaps. Examine the extent to which the OMM 2020 is aligned to the vision and objectives of the Police and Crime Plan

Value for money (continued)

Significant risk	Link to sub-criteria	Relevant to MPS / MOPAC / Both	Work proposed to address
<p>3. Benefits realisation of major change programmes The One Met Model and the TOM is predicated on major transformation programmes delivering radical changes to the way in which services are delivered. This includes a number of key projects, which are significant both in scale and financial terms, including the remaining transformational programmes in the commercial strategy. Delivery of financial benefits is as key as the operational transformation benefits. We will assess the extent to which benefits are being articulated and delivered against plans.</p>	<p>Informed decision making</p> <p>Sustainable resource deployment</p>	<p>MPS</p>	<ul style="list-style-type: none"> Review the project management and risk assurance frameworks established by MOPAC and the MPS to establish how they are identifying, managing and monitoring these risks. Update our understanding of the OBCs and benefits of current major change programmes Assess whether clear, achievable benefits have been outlined in the business cases and whether adequate ownership has been assigned to those responsible for planning and managing the achievement of these programmes. Understand reasons where benefits have eroded or not been realised in line with plan
<p>4. Commercial strategy The MPS is now significantly underway with its commercial strategy. Working with partners from different organisations and service areas with potentially conflicting priorities, these projects are inherently complex and high profile. The first three programmes: SSCL; fleet; and catering, are at, or nearing, implementation stage. We will assess the extent to which benefits and the underlying business rationale have been realised.</p> <p>The remaining four programmes are transformational in nature and we will consider them as part of risks 2 and 3, above.</p>	<p>Informed decision making</p>	<p>MPS</p>	<ul style="list-style-type: none"> Update our understanding of the commercial strategy, progress and business cases. Review and assess progress against delivery of the articulated benefits and business case rationale.
<p>5. Financial strategy and position The current government has stated that future police funding is protected. Despite this, the MPS still faces real-term reductions in its budgets and will be required to make further savings in future years to offset a £400m funding gap. To inform strategic financial planning, MOPAC and the MPS needs to ensure they have clarity about the income, costs and benefits associated with various 'business as usual' services as well as on-going major change programmes. There has been progress over the disaggregation of the existing savings programmes from base budgets in recent years.</p> <p>We will update our understanding of your medium term financial strategy (MTFS) and review actions taken to address identified budget shortfalls and identify savings.</p>	<p>Informed decision making</p> <p>Sustainable resource deployment</p>	<p>Both</p>	<ul style="list-style-type: none"> Examine the MTFS and plans to understand the budget, investment and benefits profile Review progress and delivery of planned savings 2016/17 Look at financial management information to assess whether this is supporting and driving change appropriately. Assess alignment of MOPAC priorities and communication of requirements with achievability of savings.

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in the MOPAC's and MPS's Annual Governance Statements are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the MOPAC and the MPS.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the MOPAC and the MPS, copied to the Secretary of State
- We certify completion of our audit.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

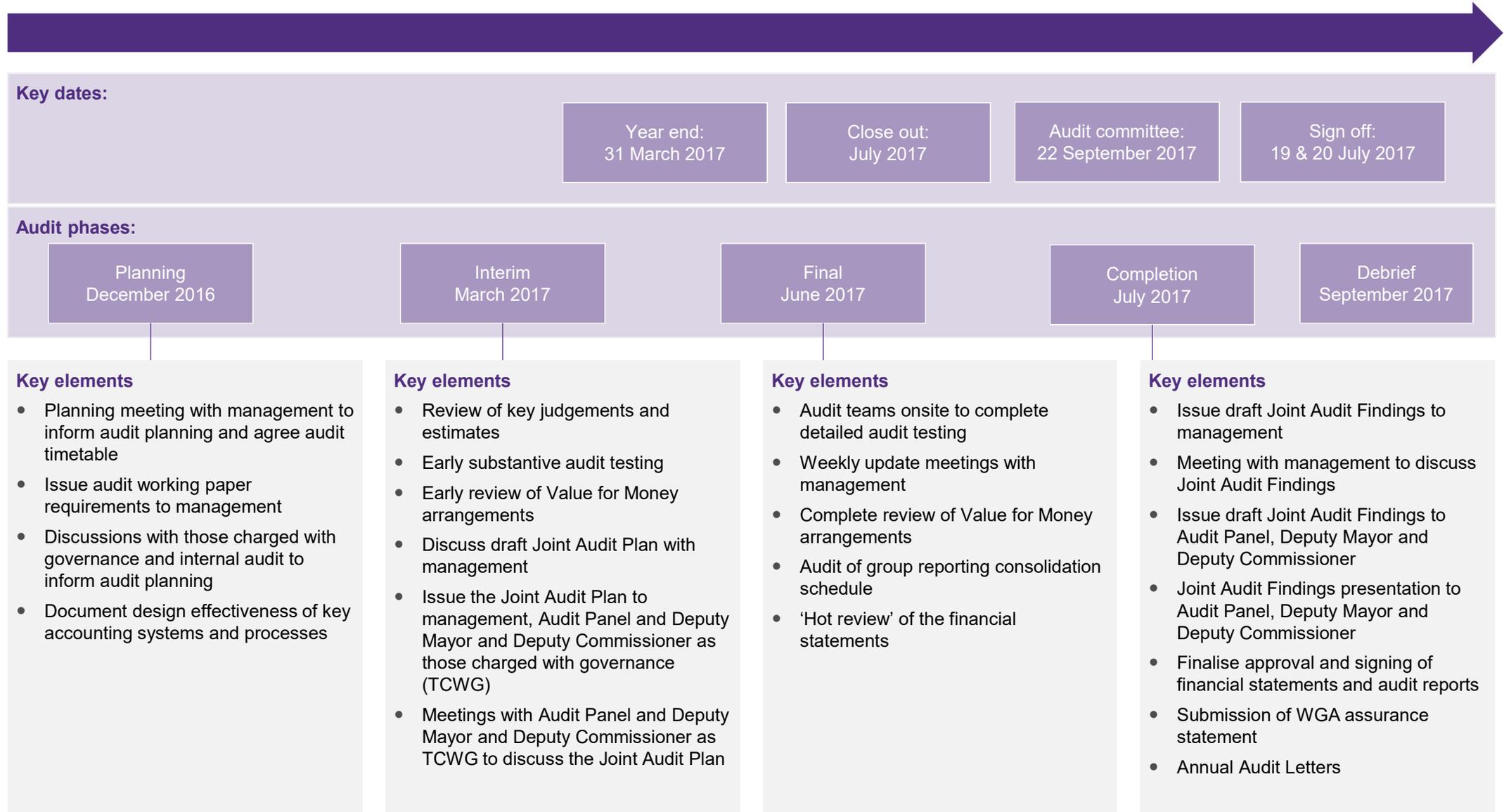
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on MOPAC's and MPS' key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p> <p>Throughout the year we have held regular meetings with internal audit.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the MOPAC and the MPS and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the MOPAC's or the MPS's financial statements</p>
Review of information technology controls	<p>Our information systems specialists will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>This review will determine whether IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>This work is not yet complete. We will report any significant finding to you in our Audit Findings Report.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the MOPAC's and the MPS's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <ul style="list-style-type: none"> • <i>Employee remuneration</i> • <i>Operating expenses</i> • <i>Pensions payments</i> • <i>Valuation of pension fund net liability</i> • <i>Valuation of property, plant and equipment</i> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the MOPAC and the MPS with our documented understanding.</p>	<p>As at the date of writing, our work is on-going. Our work to date has not identified any weaknesses which impact on our audit approach. Should any issues arise we will report these to you in our audit findings report.</p>
Journal entry controls	<p>We have reviewed the MOPAC's and the MPS' journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the MOPAC's and the MPS's control environment or financial statements.</p>	<p>As part of the Interim audit, we will undertake detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review.</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Mayor's Office for Policing and Crime audit	131,828
Metropolitan Police Service audit	120,000
Total audit fees (excluding VAT)	251,828

Our fee assumptions include:

- Draft financial statements and supporting working papers in electronic format are provided by your Corporate Finance team in accordance with the timescales agreed with us.
- The scope of the audit, and the nature of MOPAC and the MPS's business activities, have not changed significantly
- MOPAC and the MPS will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Joint Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Internal benchmarking of key controls including IT systems
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to MOPAC or the MPS. The following audit related and non-audit services were identified:

Fees for other services

Service	Fees £	Planned outputs
Audit related		
EU Grant certification	12,000	Certificate on a reasonable assurance engagement
Non-audit related		
Tax advisory services	33,000	Tax advice
ACPO Crime Prevention Initiatives Limited voluntary	6,500	Voluntary disclosure letter to HMRC

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Joint Audit Findings report at the conclusion of the audit.

The above services are consistent with the MOPAC's and MPS's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Joint Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Joint Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Deputy Mayor of Policing and Crime and the Commissioner of Police of the Metropolis.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the MOPAC's and the MPS's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Deputy Mayor of Policing and Crime and the Commissioner of Police of the Metropolis to ensure that proper arrangements are in place for the conduct of their business, and that public money is safeguarded and properly accounted for. We have considered how the Deputy Mayor of Policing and Crime and the Commissioner of Police of the Metropolis are fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓



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PSAA – Advisory Panel

25 May 2017

Overall timetable

Activity	Target date
Deadline for submission of completed invitations to tender	Noon, 10 May 2017
Tender evaluation	11 May to 1 June 2017
Contract award decision made by PSAA Board and standstill period	June 2017
Contract award	Start of July 2017
Consult firms on proposed schedule of appointments	7 – 21 July 2017
Consultation on proposed auditor appointments with opted-in bodies	August to December
Consultation on proposed scale fees with opted-in bodies	October 2017 to January 2018
Auditor appointments approved by PSAA Board and confirmed to opted-in bodies	By 31 December 2017
Scale fees approved by PSAA Board and confirmed to opted-in bodies	By 31 March 2018
Start date for auditor appointments for 2018/19	1 April 2018

Thank you - Opt in position

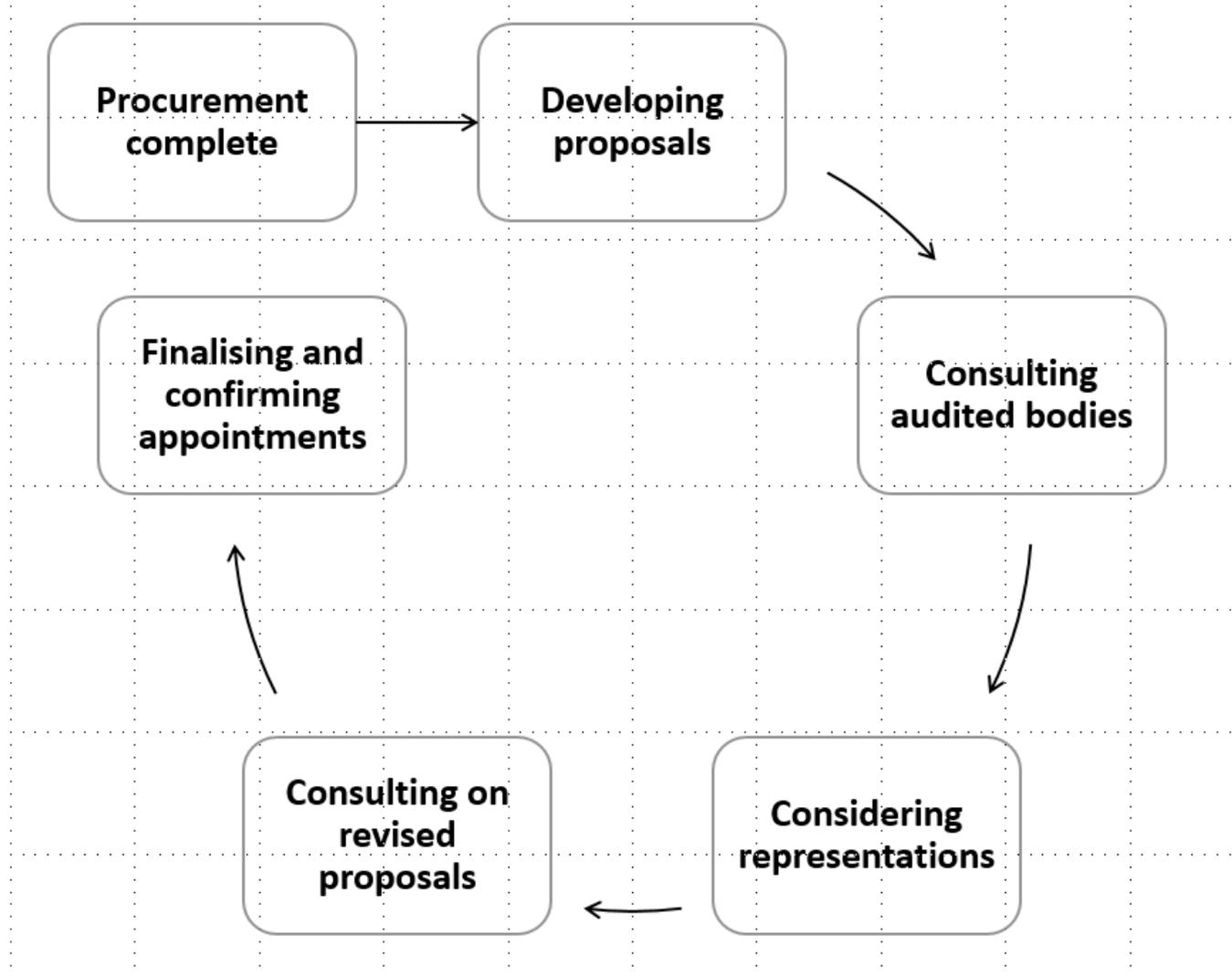
Authority type (inc. Pension Fund where applicable)	Number
County Council	27 (100%)
London Borough	32 (97%)
Metropolitan Borough	34 (94.4%)
Unitary Authority	53 (94.6%)
District Council	200 (99.5%)
Fire and Rescue Authority	29 (100%)
Police Authorities (Police and Crime Commissioner & Chief Constable)	73 (97.3%)
LG miscellaneous	35 (100%)
TOTAL	483 (98.17%)

Nine authorities decided to make local arrangements:

- Essex Police and Crime Commissioner and Chief Constable
- East Hampshire District Council
- City of London Corporation
- 3 x unitary councils (Cornwall, Isles of Scilly and Northumberland)
- 2 x Metropolitan Borough Councils (Newcastle and North Tyneside)

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Auditor appointment process



Auditor appointment process

- a separate process that follows the procurement.
- strategy and approach for auditor appointment, allocation and consultation agreed by the PSAA Board.
- key principles for allocation of firms to authorities as informed by Advisory Panel will include:
 - auditor independence;
 - meeting contractual commitment;
 - accommodating joint/shared working arrangements as far as possible;
 - ensuring a blend of authority types for each firm;
 - taking account of a firm's principal location; and
 - continuity of audit firm, if possible

Consultation

- audit firms need to confirm position on independence issues for each opted-in body before we can consult audited bodies on proposed appointments.
- audited bodies will have five weeks (14 August to 22 September) to consider the auditor proposed by PSAA
- where a body is content with the appointment we have proposed, no further action is needed.
- But....

Consultation

- in some instances there could be valid reasons why the proposed firm may not be appointed
- opted-in bodies will be able to make representations on the proposed appointment
- two opportunities for bodies to make representations
 - 16-27 October (following main consultation period)
 - 10-24 November (final opportunity before PSAA Board approves all appointments)

Auditor appointment timetable

Activity	Target date
Prepare schedule of proposed appointments	12 July 2017
PSAA Board approve proposed appointments	19 July 2017
Consult firms on proposed schedule of appointments	20 July – 14 August 2017
Consult audited bodies on proposed appointment	14 August – 22 September 2017
Review representations and consult on alternative proposed appointment – iteration 1	23 September – 27 October 2017
Review representations and consult on alternative proposed appointment – iteration 2	28 October – 27 November 2017
PSAA Board approves appointments	14 December 2017
PSAA issues appointment confirmation letters	18 December 2017

Fee setting process

- 2018/19 scale fees will be determined by the prices achieved in the auditor procurement
- PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as currently evidenced by audit fees for 2016/17
- pooling means that everyone in the scheme will benefit from the most competitive prices.

Audit Quality

- Audit firms must be registered with ICAEW or ICAS and are subject to their scrutiny and that of the Financial Reporting Council (FRC).
- PSAA ensures that firms maintain the appropriate registration and liaises closely with RSBs and the FRC to support the early detection and rectification of issues.
- International Auditing and Assurance Standards Board (IAASB) Framework for Audit Quality adopted as PSAA's model for audit quality.