

MOPACMAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

MPS-MOPAC JOINT AUDIT PANEL

4 October 2021

External Audit Plan 2020/21

Report by: The MOPAC Chief Finance Officer and Director of Corporate Services

Report Summary

Overall Summary of the Purpose of the Report

This report sets out the Audit Plan agreed with Management and Those Charged With Governance for the 2020/21 audit. Grant Thornton will provide a verbal update on the progress of the audit, the timings for completion of the audit, and key findings from their fieldwork.

Key Considerations for the Panel

To note the plan for the audit, and to seek assurance that the progress of the audit is on track.

Interdependencies/Cross Cutting Issues

Risk register, governance, financial oversight.

Recommendations

The Audit Panel is recommended to:

- a. Note this paper

1. Supporting Information

- 1.1. This paper sets out the plan for the 2020/21 external audit. Grant Thornton will provide a verbal update on the progress of the audit, the timings for completion of the audit, and key findings from their fieldwork.
- 1.2. Draft feedback indicates that Grant Thornton have no significant findings arising from their interim visit, and that they remain on track to finalise the final accounts audit by the end of September.

2020/21 external audit plan

- 1.3. The GT joint audit plan – attached at Appendix 1 - has been developed taking account of a range of key factors, notably the Police Officer Uplift Programme; COVID-19; the 2021 Mayoral election; delivery of the current Police and Crime Plan and the development of the next iteration of the Police and Crime Plan; organisational change, financial resilience, and accounting and auditing developments.
- 1.4. Significant risks identified and subject to the full scope audit by Grant Thornton are management over-ride of controls, valuation of land and buildings, valuation of pension fund liability, and incomplete or inaccurate transfer of information to the new fixed asset register.
- 1.5. The plan sets out in detail the requirements of ISA (International Standard on Auditing) 540 for Auditing Accounting Estimates and Related Disclosures which apply for the planned work on valuation of land and buildings, and valuation of pension fund liability.
- 1.6. The plan sets out the thresholds of materiality for MPS, MOPAC and MOPAC Group.
- 1.7. The revised approach for the assessment and reporting for the audit of value for money are set out on pages 17-18 of the appendix. This assessment is expected to be completed by the end of December 2021.

2. Equality and Diversity Impact

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

3. Financial Implications

- 3.1. Grant Thornton propose costs of the external audit for 2020/21 at £159,483 and £132,525 for MOPAC and MPS respectively. The additional costs above the approved scale fees of £101,508 and £92,400 are subject to Public Sector Audit Appointments (PSAA) approval.
- 3.2. The additional costs are set out in page 21 of the appendix.
- 3.3. The cost of any agreed additional fees will be met from within existing MOPAC and MPS budgets.

4. Legal Implications

- 4.1. There are no direct legal implications arising from the report.

5. Risk Implications

- 5.1. This paper relates to the corporate risk register entries for resources and value for money - for MPS reference 6, and for MOPAC reference 1

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7. Appendices and Background Papers

Grant Thornton External Audit Plan 2020/21

Joint External Audit Plan

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

Year ending 31 March 2021

August 2021



Contents



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Section	Page	
Key matters	3	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 planning 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 Force/OMOPAC or all 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.
Introduction and headlines	6	
Group audit scope and risk assessment	8	
Significant risks identified	9	
Accounting estimates and related disclosures	12	
Other matters	15	
Materiality	16	
Value for Money Arrangements	17	
Risks of significant VFM weaknesses	18	
Audit logistics and team	19	
Audit fees	20	
Independence and non-audit services	22	
Appendix 1: Revised Auditor Standards and application guidance	23	

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Key matters

Factors

Police sector developments

Throughout the 2020/21 financial year, the UK Government has reaffirmed its commitment to delivering the 20,000 officer uplift programme. Whilst commitments to increase officer levels have been well received, challenges remain in ensuring that this investment is able to meet the changing demands on police time and the increasing expectations of the public they serve.

Due to the economic uncertainties brought about by the Covid-19 pandemic, the police sector continues to operate within the constraints of a one year funding settlement. Precept flexibility remains the key source of growth in funding to the sector, which has been utilised by many Police and Crime Commissioners nationally.

Local background and context

MOPAC and the MPS have both faced a number of challenges this year, both organisations have felt the impacts of changing demand on various services as a result of the Covid-19 pandemic as well as adapting to new ways of working and exposure to a number of high profile national issues. The added pressure of establishing a growing organisation in response to the officer uplift programme at the same time as experiencing uncertainties in funding levels provides a greater element of uncertainty to managing both the operations of the organisation and its finances.

During the year MOPAC was focused on preparations for the Mayoral elections in May 2021. Post the election the focus is now shifting from the delivery of the current Police and Crime Plan to the implementation of the next iteration of the Police and Crime Plan.

The current Police and Crime Plan is in its final year of operation before being refreshed for the next iteration of the plan, in line with the Mayoral election cycle. Our prior year audit work performed on value for money highlighted that the delay in mayoral elections had provided MOPAC with additional time for evidence building for the next Police and Crime Plan.

There is a continued challenge to ensure partnership working is effective to ensure delivery of the Police and Crime Plan.

Organisational changes

MOPAC has experienced a year of considerable change with many changes in roles being made at senior levels within the organisation. The organisation is also working through a change in structure, with change comes about the expectation for positive developments but also the challenge of embedding new and different ways of working within the organisation.

Our response

- We will continue to provide you with sector updates via our Joint Audit Panel updates.
- We will consider the delivery of the current Police and Crime Plan and assess the processes and procedures undertaken during the year to inform the next iteration of the Police and Crime Plan, as well as assessing the arrangements the organisation has to ensure effective partnership working as part of our work on Value for Money.
- Our value for money work will consider the governance arrangements in place at both MOPAC and the MPS as well as the economy, efficiency and effectiveness of arrangements to secure Value for Money.

Key matters

Factors

Impact of Covid-19 pandemic

The outbreak of the coronavirus (Covid-19) pandemic has had a significant impact on the normal operations of the MPS. Alongside the police sector nationally it has had to work differently at all levels to be able to enforce ever-changing Covid-19 regulations and deliver business as usual policing.

With short notice, MPS and MOPAC were able to implement remote working, both have utilised enabling technology to ensure that the organisations have been able to work flexibly to respond to the changing demand on their time.

Whilst the Covid-19 pandemic has had less immediate financial impact on policing when compared to some other public sector bodies it has created pressures. Income has been largely unaffected with the majority of it being grant funded or raised through taxation. There has been an impact on revenue raised for the policing of events and other demand led income. Costs have also been impacted by increased personal protective equipment and overtime. To an extent these pressures have been offset by reductions in crime levels during the early part of the pandemic and through Covid-19 related funding from the Government.

The true financial impact of the pandemic is likely to materialise over the medium-term as public finances are squeezed in the post-pandemic environment, and in particular should council tax and business rates collections fall as the economic impact of the pandemic is realised. This coupled with the uncertainty created by another one year settlement and the delay to the Comprehensive Spending Review means that longer term planning remains increasingly challenging.

MOPAC and the MPS are now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality policing.

Financial Resilience

As highlighted above the Covid-19 pandemic has created an increased level of uncertainty in relation to financial resilience and sustainability for all public sector organisations. Both the MPS and MOPAC have reassessed their approaches to budgeting in order to plan for the short to medium term as a result of one year funding settlements. Our value for money work last year identified the positive steps both organisations had taken to mitigate the risks that financial uncertainties can cause upon the organisation. Our discussions with management to date has identified a revised approach to budgeting with a focus being placed on priority based budgeting and scenario planning in order to respond to the risks posed by the current uncertainty.

The estates strategy is also in the process of being refreshed which looks to respond to the varying ways of working and future plans for the organisation as a result of the Covid-19 pandemic.

Our response

- We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.
- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, we will assess the progress against previously agreed recommendations.
- We will consider your arrangements in place to secure financial resilience and sustainability for both the MPS and MOPAC as part of our work on Value for Money.

Key matters

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Mayor's Office for Policing and Crime ('MOPAC') and the Commissioner of Police of the Metropolis ('MPS') to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year MOPAC's valuer reported a material uncertainty regarding the valuations of properties due to the Covid-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's level 3 investments which impacted both the Force and MOPAC's position. We will monitor the position for the 31 March 2021 valuations.

Our response

- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice
- We will continue to provide you with sector updates via our Joint Audit Panel updates.
- MOPAC and MPS's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 7.
- We will liaise with MOPAC's valuer to clarify any potential material uncertainties in 2020-21.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the Mayor's Office for Policing and Crime ('MOPAC') and the Commissioner of Police of the Metropolis ('MPS') for those charged with governance. Those charged with governance are the Deputy Mayor for Policing and Crime for MOPAC, and the Commissioner for MPS.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of MOPAC and MPS. We draw your attention to both of these documents on the PSAA website.

Group Audit

MOPAC and the MPS are required to prepare group financial statements that consolidate the financial information of MOPAC and the MPS.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk that the revenue cycle includes fraudulent transactions (rebutted).
- The risk that the valuation of land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.
- The risk that data transferred to the new fixed asset register is materially incomplete or inaccurate.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £55.5m (PY £51.329m) for the group, MOPAC and MPS, which equates to approximately 1.5% of MPS's prior year gross expenditure for the year adjusted for the effects of nonrecurring items. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.775m (PY £2.566m).

Value for Money arrangements

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below:

- Your response to the Covid-19 pandemic.
- The financial strategy and plans to secure long term financial sustainability.
- Transformation programme and innovation to secure savings and efficiencies for MPS and MOPAC.
- The use of data to make informed business decisions
- Developments in governance and oversight, including decision making structures between the MPS and MOPAC
- Arrangements to produce, monitor and ensure delivery of the Police and Crime Plan.
- Arrangements in place to inform effective business planning.

Introduction and headlines continued

Scope of our audit

The scope of our audits is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements of MOPAC, MPS and the Group (including the Annual Governance Statements for both entities) that have been prepared by management with the oversight of those charged with governance (the Deputy Mayor for Policing and Crime for MOPAC, and the Commissioner for the MPS); and
- Value for Money arrangements in place at each body for securing economy, efficiency and effectiveness in their use of resources.

The audit of the financial statements does not relieve management, MOPAC, or the MPS of their responsibilities. It is the responsibility of the bodies to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how MOPAC and the MPS are fulfilling these responsibilities.

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

Audit logistics

Our interim visit will take place in February/March and our final visit will take place in July/August. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £159,483 (PY: £153,534) for MOPAC and £132,525 (PY: £106,260) for MPS, subject to management providing a high quality and materially accurate set of accounts and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 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	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Mayor's Office for Policing and Crime	Yes		<ul style="list-style-type: none"> • Management over-ride of controls • Valuation of land and buildings • Valuation of pension fund net liability • Incomplete or inaccurate transfer of information to the new fixed asset register 	Full scope audit performed by Grant Thornton UK LLP
Commissioner of Police of the Metropolis	Yes		<ul style="list-style-type: none"> • Management over-ride of controls • Valuation of pension fund net liability 	Full scope audit performed by Grant Thornton UK LLP
Empress Holdings Limited and subsidiaries	No	Out of scope	<ul style="list-style-type: none"> • None 	We will review the judgement of management not to consolidate Empress Holdings Limited to ensure it is reasonable and in line with the requirements of the accounting framework.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement 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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Group, MOPAC and MPS (rebutted)	Under ISA (UK) 240 there is a rebuttable 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.	<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; and • the culture and ethical frameworks of local authorities, including MOPAC, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for 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 MOPAC to MPS for the cost of policing services. Income for the MPS is received entirely from MOPAC.</p> <p>Therefore we do not consider this to be a significant risk for the MPS.</p>
Management over-ride of controls	Group, MOPAC and MPS	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>MOPAC and MPS face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and MOPAC	<p>MOPAC re-values land and buildings on a rolling basis over a five-year period to ensure that carrying value is not materially different from current value at the financial statements date.</p> <p>The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions. In valuing your estate, management have made the assumption that for a number of sites, in the event they need to be replaced, they would be rebuilt to modern conditions. You plan to utilise Montagu Evans to value your estate.</p> <p>This represents a significant estimate by management in the financial statements. We have therefore identified the valuation of land and buildings revaluations and impairments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We will engage our own valuer to assess the instructions to the group's valuer; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding. We will engage our own valuer to assess the group's valuer's report and the assumptions that underpin the valuation; • carry out testing of data provided to the valuer to gain assurance if it is complete and accurate; • test revaluations made during the year to see if they had been input correctly into MOPAC and (group's) asset register; and • 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 from current value at year end.
Valuation of the pension fund net liability	Group, MOPAC and MPS	<p>The Police Officer Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts 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. We have therefore identified the valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assess the accuracy and completeness of the information provided by the MPS to the actuary to estimate the liability; • test the consistency of the pension fund net liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report. This will include the potential impact of the McCloud/ Sergeant ruling.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Incomplete or inaccurate transfer of information to the new fixed asset register	Group and MOPAC	<p>On 1 April 2020, you implemented a new fixed asset register. When implementing a new significant asset management system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous fixed asset register.</p> <p>We therefore identified the completeness and accuracy of the transfer of information to the new fixed asset register as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> perform a walk-through of the migration process from the previous fixed asset register to the new fixed asset register to evaluate the design and implementation effectiveness of controls pertaining to the transfer of data from the previous fixed asset system; complete an information technology (IT) environment review by our IT audit specialists to document, evaluate and test the IT controls operating within the new fixed asset register system; perform substantive validity checks to obtain assurance that balances, both at the individual and aggregate level have been transferred completely and accurately; and test the data transferred from the old system to the new, and from the new system back to the old, to gain assurance over the completeness and accuracy of data transferred.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified three recommendations in our 2019/20 audit in relation to MOPAC and MPS's estimation process for valuation of land and buildings and valuation of the pension net liability. We will follow up and report on progress against prior year recommendations within our Audit Findings Report.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically, do MOPAC and the MPS:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of MOPAC and the MPS we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Valuation of police officers pension liability
- Fair value estimates
- Finance lease liabilities
- PFI liabilities

MOPAC and MPS's Information systems

In respect of MOPAC and the MPS's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that MOPAC and MPS uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at MOPAC and MPS (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Accounting estimates and related disclosures

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have included inquiries within our management letters shared with MOPAC and MPS. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of MOPAC and the MPS.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements
 - issuing a report in the public interest or written recommendations under section 24 of the Local Audit and Accountability Act 2014 (the Act)
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

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 this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Group, MOPAC and MPS's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

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. 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.

Materiality for planning purposes

We have determined financial statement materialities based on a proportion of the gross expenditure of the group, MOPAC and MPS for the financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materialities, which is £55.5m (PY £51.329m), which equates to approximately 1.5% of MOPAC’s prior year gross expenditure for the year adjusted for the effects of nonrecurring items.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Joint Audit Panel

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to MOPAC and the MPS any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group, MOPAC and MPS, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.775m (PY £2.566m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to MOPAC and the MPS to assist it in fulfilling its governance responsibilities.

Prior year gross expenditure
(adjusted for the actual impact on injury pensions and McCloud past service cost)

£3,826m Group

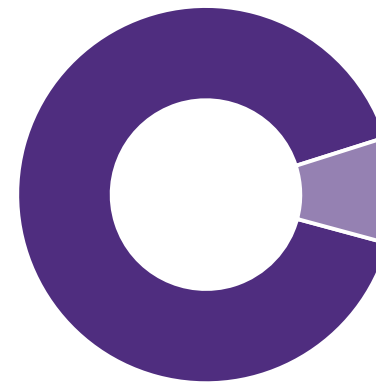
(PY normalised: £3,539m)

£3,826m MOPAC

(PY normalised: £3,539m)

£3,723m CC

(PY normalised: £3,422m)



■ Prior year gross expenditure

■ Materiality

Materiality

£57.397m

Group financial statements materiality
(PY: £53.090m)

£57m

MOPAC financial statements materiality
(PY: £53.095m)

£55.5m

MPS financial statements materiality
(PY: £51.329m)

£2.775m

Misstatements reported to MOPAC and MPS
(PY: £2.566m)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out to the right:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

The Police operating environment has been significantly impacted by the pandemic. The future funding regime remains uncertain and this lack of certainty will impact on MOPAC and the MPS's ability to undertake long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed:

- Your changes in arrangements in response to the Covid-19 pandemic.
- Your arrangements in place to ensure a robust financial strategy and secure long term financial sustainability.
- Your arrangements around transformation and innovation to secure savings and efficiencies for MPS and MOPAC.
- Your arrangements for the effective use of data to make informed business decisions
- Your arrangements in place to ensure robust governance and oversight, including decision making structures between the MPS and MOPAC
- Your arrangements to produce, monitor and ensure delivery of the Police and Crime Plan.
- Your arrangements in place to inform effective business planning.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

March 2021



Planning and
risk assessment

July 2021



Audit Plan

Year end audit
July and August 2021

September 2021



Audit Findings
Report/ Auditor's
Annual Report

By
30 September
2021



Audit
opinion



Iain Murray, Key Audit Partner and Engagement Lead

Iain will be the main point of contact for the Deputy Mayor of Policing and Crime, the Commissioner of the Police of the Metropolis, Chief Finance Officers and Audit Panel members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Iain will ensure our audit is tailored specifically to you, he will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value. Iain will review all reports and the team's work, focussing his time on the key risk areas to your audit.



Parris Williams, Senior Audit Manager

Parris is responsible for planning, managing and leading the audit and providing feedback to you throughout the audit process. Parris is responsible for audit quality, project management of the audit, ensuring the audit requirements are fully complied with and producing reports for the Joint Audit Panel. He will respond to ad-hoc queries whenever raised and meet regularly with the Chief Finance Officers and members of the finance team.



Rebecca Lister, Audit Manager

Rebecca will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. She will attend the Joint Audit Panel and liaison meetings, undertake reviews of the team's work, and ensure that our reports are clear, concise and understandable. She will be part of the team responsible for the delivery of our work on your arrangements in place to secure value for money.



Corinne Braund, Assistant Audit Manager

Corinne is responsible for the delivery of the audit, acting as first port of call for the finance team in any technical matters. Corinne monitors the deliverables with your finance team, highlighting any significant issues and adjustments to senior management. Corinne will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- provide debtor and creditor listings that are the balances outstanding at the year end
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for MOPAC and MPS to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Executive Director of Corporate Resources

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
MOPAC Audit	£119,933	£153,534	£159,483
MPS audit	£92,400	£106,260	£132,525
Total audit fees (excluding VAT)	£212,333	£259,794	£292,008

Assumptions

In setting the proposed fees, we have assumed that the MOPAC and the MPS will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	MOPAC	MPS	Total audit fees (excluding VAT)	Rationale for fee variation
Scale fee published by PSAA	101,508	92,400		
Raising the bar/regulatory factors	20,090	13,910		The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
<i>New issues for 2020/21</i>				
Additional work on Value for Money (VfM) under new NAO Code	23,110	15,990		The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.
Increased audit requirements of revised ISA 540	8,865	6,135		The revised Standard reflects increasing focus from regulators and other stakeholders on all key estimates, especially those which are complex, require significant judgements. ISA 540 has been enhanced to place increasing demands on auditors to understand and assess an entity's internal controls over accounting estimates.
Increased audit requirements of ISA 240 and ISA 700	5,910	4,090		<p>The auditor's responsibilities in relation to fraud in an audit of the financial statements are set out in ISA 240. This was most recently updated in January 2020, with effect for audit year 2020/21. In response to the new Standard, and to the increased expectations of regulators, we are heightening our focus on fraud risks.</p> <p>The revised ISA 700 standard is effective for engagements relating to financial periods commencing on or after 15 December 2019. The key change is that all auditor's reports will be required to include an explanation as to what extent the audit was considered capable of detecting irregularities including fraud.</p>
Revised scale fee (to be approved by PSAA)	159,483	132,525	292,008	

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to MOPAC, the Group and the MPS.

Other services








No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.










Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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