

MOPACMAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

MPS-MOPAC JOINT AUDIT PANEL

27 July 2020

External Audit Update

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

Report Summary

Overall Summary of the Purpose of the Report

This paper updates the Audit Panel on the work of Grant Thornton (GT) in undertaking the 2019/20 external audit. The papers refer to the potential impacts of COVID-19 and the additional costs of the audit.

Key Considerations for the Panel

To note the progress to date on the 2019/20 external audit.

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 and governance improvement.

Recommendations

The Audit Panel is recommended to:

- a. Note the external audit progress report
- b. Note the updated audit plan, and
- c. Note the additional audit costs

1. Supporting Information

- 1.1. At their last formal meeting in January the Audit Panel noted the Annual Audit Letter in respect of 2018/19 – the cumulation of that year’s external audit activity, and the preparations for the 2019/20 audit work, and was advised of the National Audit Office’s changes to the code of audit practice and the implications this would have for future reporting.
- 1.2. MPS and MOPAC published their draft statements of accounts on 19 and 22 June respectively, with the inspection period running from 22 June – 31 July. Whilst this is behind the planned timetable this is ahead of the revised required deadline of 31 August 2020. The draft MOPAC accounts can be accessed at <https://www.london.gov.uk/what-we-do/mayors-office-policing-and-crime-mopac/about-mayors-office-policing-and-crime-mopac/our-finances#acc-i-55273> and the CPM draft accounts at https://www.met.police.uk/SysSiteAssets/foi-media/metropolitan-police/what_we_spend/corporate/cpm_unaudited_statement_accounts_2019_2020.pdf

Progress Report and Sector Update – Appendix 1

- 1.3. Grant Thornton (GT) report on their audit work to date for the 2019/20 audit, including the interim on-site testing. GT report that no significant issues were identified in relation to the account balances, transactions, control environment or accounting judgements and estimates, and subject to a reported small number of residual queries the interim audit work was mostly completed despite remote working for the final week of the interim audit.
- 1.4. GT report that year end testing and review of financial statements is currently underway. The work on the value for money assessment is planned and GT report that they do not envisage this to be a significant risk for 2019/20.
- 1.5. Following the COVID-19 lock down and GT audit staff working from home GT has reviewed their working arrangements and state that the majority of the audit work can be carried out remotely. They state that they will continue to liaise with the MPS/MOPAC finance teams to progress the audit as effectively as possible.
- 1.6. Due to delays caused by COVID-19, such as
 - later publication of the draft accounts,
 - slippage in NHS audit deadlines,
 - the additional time expected to address working remotely,
 - addressing significant risk matters for potential COVID-19 related implications

the draft Audit Findings Report (AFR) which was scheduled for the July Audit Panel is now scheduled for September. The revised timetable for the audit and its reporting remains within the target date for publication of audited statements of 30 November 2020.

- 1.7. GT set out at page 4 of this appendix a number of key issues which will need to be considered by management and those charged with governance as a result of COVID-19.
- 1.8. As usual GT also provide links to police accounting issues and their recent publications which the Panel may wish to consider – pages 6-9 of Appendix 1. In particular the National Audit Office (NAO) review of the Code of Audit Practice in relation to the value for money assessment may impact the provision of external audit for audits from 2020-21 onwards.

Joint Audit Plan – Appendix 2

- 1.9. The GT joint audit plan – attached at appendix 2 - has been updated to take account of the potential impacts of COVID-19, now including an additional financial statement risk, an assessment of materiality (no change) and for value for money assessing the existing risks in the context of COVID-19. Page 11 of appendix 2 sets out the additional work GT propose in order to take account of COVID-19.
- 1.10. GT has identified a series of additional work activities they report necessary to undertake the audit – pages 18-19 of appendix 2. This would result in an increase in cost across MPS and MOPAC from 2018/19 of £212k to £226k.

2. Equality and Diversity Impact

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

3. Financial Implications

The proposed audit plan estimates an additional cost of £14k from the 2018/19 audit. This increase has been agreed by the MPS Director of Finance and MOPAC Interim Chief Finance Officer and will be funded from within existing resources.

4. Legal Implications

There are no direct legal implications arising from the report.

5. Risk Implications

This paper relates to the corporate risk register entries for resources and value for money - for MPS references 1,7 and 8, and for MOPAC references 1, 2, 18 and 19.

6. Contact Details

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7. Appendices and Background Papers

Appendix 1 – Grant Thornton Audit Panel Progress Report and Sector Update
Appendix 2 – Grant Thornton Audit Panel Joint Audit Plan

Joint Audit Progress Report

Mayor's Office of Policing and Crime
The Commissioner of the Police of the Metropolis
Year ending 31 March 2020

July 2020



Contents and Introduction



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

The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Joint Audit Panel can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the following link to be directed to the website <https://www.grantthornton.co.uk/>.

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

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Progress at July 2020

Financial Statements Audit

Planning and Risk Assessment

We started planning for the 2019/20 financial statements audit in December 2019 and have issued a detailed Joint Audit Plan, setting out our proposed approach to the audit of the Group, MOPAC and the MPS 2019/20 financial statements.

Subsequent to the issue of our Joint Audit Plan in March, global events have moved in an unexpected and tragic direction. None of us could have foreseen the impact that the COVID-19 crisis has had on the world. As a police body, you are at the forefront of efforts to support local people, and clearly your focus will be directed to supporting local communities as best you can in these exceptionally difficult circumstances.

As your auditors, we absolutely understand the challenges that you and your teams are facing and we have already been discussing with you and your team how we can work with you as effectively as we can. At these challenging times it is even more important to ensure that we can deliver a high quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face.

With this in mind we updated our Joint Audit Plan in May 2020 and issued it to management. The updated Joint Audit Plan is included in the agenda and outlines our response to the COVID-19 pandemic.

Early Testing

We conducted a visit in March to perform early testing on months 1-10 account balances and transactions, update our knowledge of the control environment and review key accounting judgements and accounting policies.

No significant issues were identified during the course of this testing which we need to bring to your attention. In the final week of our visit, lock down was enforced due to COVID-19 meaning we had to complete our work wholly remotely. With the exception of a small number of residual queries, all work planned was completed.

Year End Testing

We are currently conducting year end testing on MOPAC and the CPM's draft financial statements in order to provide our audit opinion on the financial statements. Findings of work performed will be communicated to Those Charged with Governance after the completion of the audit.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported the significant risks identified as a result of our initial risk assessment in in our Joint Audit Plan.

As part of our VfM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current crisis. We do not envisage this will be a significant audit risk for 2019/20.

We will report the conclusions from our work in the Joint Audit Findings Report to be communicated to Those Charged with Governance after the completion of the audit.

Other areas

Meetings

We last met (virtually) with the CPM Commissioner and MOPAC Deputy Mayor in March, the Section 151 Officer for the CPM in March and MOPAC Section 151 officer in April as part of our ongoing audit liaisons.

We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective; especially given the need to work remotely.

We will update the Joint Audit Panel as part of our year end reporting on the resolution of each of these points.

Events

We will keep you informed of upcoming events and ensure that invitations are circulated to both management and the committee. Plans are currently on hold as we continue to work remotely.

COVID-19 Update

Impact on working arrangements:

- Following the government's announcement on Monday 16th March, we have closed our offices for the foreseeable future and your audit team are now working from home.
- We are therefore working remotely during the accounts audit and have discussed the logistics of these arrangements with the finance team.
- Although there are some audit tasks which are best undertaken in person, the majority of the audit will be able to be completed remotely. This is however likely to make the audit process longer. We will work closely with the finance team to make this different way of working as efficient as possible.
- We acknowledge there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19.

Impact on accounts and audit opinions

The following sets out a number of the key issues which finance teams will need to consider as part of the year end closedown.

- Impact on reserves and financial health and whether the audited body needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern.
- Impact on collectability of debt and assumptions made in bad debt provisions.
- Impact on post-balance sheet events (the consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed).
- Disclosure of impact in annual report.
- Disclosure of critical judgements.
- Disclosure of material estimation uncertainties.
- Impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- Impact on reporting to those charged with governance and signing arrangements.

Regulatory changes

CIPFA adopted a small number of presentational changes to its Accounting Code of Practice for 2019/20. The changes which are now proposed to the Code, for example around disclosure, will have only a marginal impact on the audit.

The Government accounting Financial Reporting Advisory Board (FRAB) has deferred the implementation of IFRS 16 by a year. Whilst IAS 8 disclosures will be required, this change will lead to some reduction in preparatory work required.

Finally, the publication date for the draft accounts has been revised to 31 August and a target date for publication of audited accounts to 30 November. Whilst flexibility in moving away from July is welcome, a number of bodies have highlighted the risk that a delayed closedown process could impact on their budget programme for 2021/22. Therefore, we have agreed to commence our visit in June 2020.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Joint Audit Plan We are required to issue a detailed accounts Joint Audit Plan to the Joint Audit Panel setting out our proposed approach in order to give an opinion on the group's, MOPAC's and MPS' 2019/20 financial statements.	May 2020	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	July 2020	Complete
Joint Audit Findings Report The Joint Audit Findings Report will be reported to the July Joint Audit Panel.	September 2020	Not yet due
Auditors Reports These are the opinions on your financial statements, annual governance statements and value for money conclusions.	September 2020	Not yet due
Joint Annual Audit Letter This letter communicates the key issues arising from our work.	October 2020	Not yet due

Sector Update

Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Police service and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from sector specialists](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

[Public Sector](#)

[Police](#)

COVID-19 Update

Consultation on the proposed police inspection programme and framework for 2020-21: Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) had launched a consultation on its proposed police inspection programme and framework for 2020-21 which was scheduled to run until April 2020. The consultation deadline has been extended indefinitely due to the Coronavirus pandemic. HMICFRS also suspended all inspection work requiring contributions from police forces and fire and rescue services until further notice.

Other updates

Impact of Covid-19 on financial reporting in the local government sector

Grant Thornton have publicised a report providing an in-depth insight into the impact of Covid-19 on financial reporting in the local government sector. As the Covid-19 pandemic continues to impact all aspects of the environment it has been highlighted that communities are looking to the public sector to do what they do best, providing essential local public services and care and support to the most vulnerable members of society.

This publication considers the operational challenges and related financial reporting/regulatory impact, significant financial reporting and other issues to consider, as well as the impact on audit work/external scrutiny process.

The full publicised report can be accessed [here](#).

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

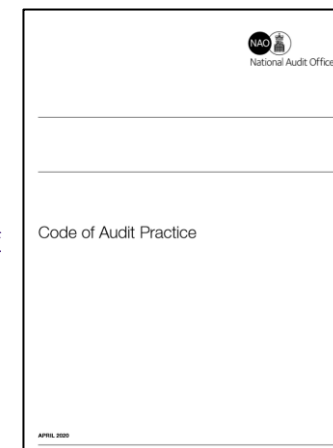
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



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



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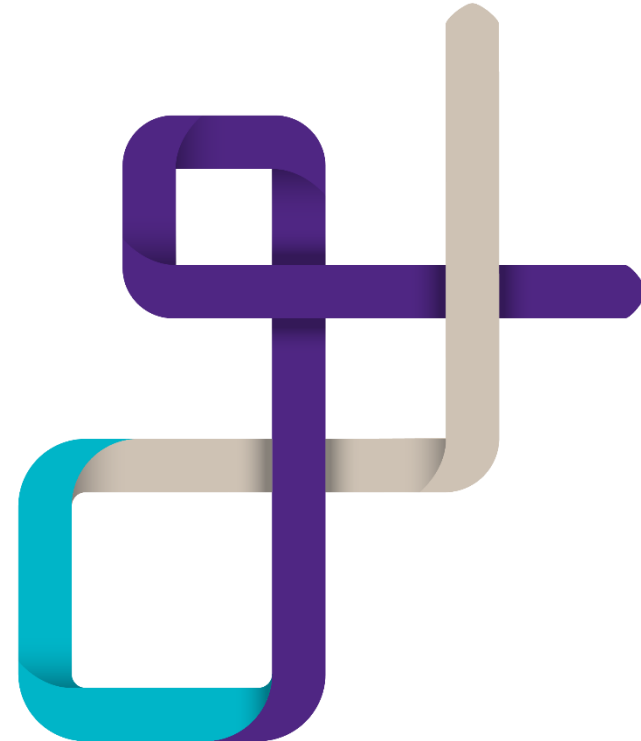
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Joint External Audit Plan

Year ending 31 March 2020

Mayor's Office for Policing and Crime
and the Commissioner of Police of the Metropolis
May 2020



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1. Introduction & 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 both MOPAC and MPS. We draw your attention to both of these documents on the [PSAA website](#).*

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 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 MPS are fulfilling these responsibilities.

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

Group Accounts

MOPAC is required to prepare group financial statements that consolidate the financial information of 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 of management over-ride of control
- the risk the valuation of land and buildings in the accounts is materially misstated
- the risk the valuation of the pension fund net liability for the Police Officers' Pension Scheme in the accounts is materially misstated
- the risk at the financial statement level associated with the global outbreak of Covid-19

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

Materiality

We have determined planning materiality £51.329m (PY £64.594m) for the group, MOPAC and the MPS, which equates to 1.5% of the MPS' prior year gross expenditure. 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 £2.566m (PY £3.23m).

Value for Money arrangements

Our risk assessment across both entities regarding your arrangements to secure value for money has identified the following VfM significant risks:

- Effectiveness of arrangements to monitor, report and deliver the Police and Crime Plan
 - Effectiveness of strategic planning decision making, governance arrangements and your performance framework
 - Effectiveness of arrangements to deliver MPS transformation
 - Arrangements to secure medium- and long-term financial sustainability, delivering effective policing within constrained finances
-

1. Introduction & headlines continued

Audit logistics

Our planning and risk assessment visit took place in December 2019. Our interim visit will take place in March 2020 where we will perform early substantive testing. Our final visit will commence in June 2020.

Our key deliverables are this Joint Audit Plan and our Joint Audit Findings Report. Our fee for the audit will be no less than £133,508 (PY: £119,933) for MOPAC and no less than £92,400 (PY: £92,400) for MPS subject to meeting our requirements set out on page 15.

Independence

We have complied with the Financial Reporting Council's Ethical Standard 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..

2. Key matters impacting our audit

Factors

Police officer uplift and funding uncertainty

In July 2019 the Government promised to recruit 20,000 extra police officers over the next three years. In September 2019 it announced a £750m increase in police funding as part of this commitment. Further details were set out in the 2020/21 Police Grant Report with £700m of this money being made available to PCCs in 2020/21 to fund the recruitment of 6,000 new officers, £168m of this money is ringfenced pending the achievement of local recruitment targets.

Police bodies will need to increase staff numbers and other costs to support the additional officers. The Government has made some funding available to support this growth. However there is some uncertainty about the extent of this funding in future periods.

The increase in funding associated with the uplift in police officer numbers presents a major opportunity for policing in the UK and gives ground for some cautious optimism.

There are challenges which the sector will need to manage as part of the uplift; such as increased political and public expectations, the need to adapt operating models based on shrinking officer numbers and the leadership and cultural challenges presented by a rapidly growing and relatively inexperienced workforce. There is also a risk that increased scrutiny and challenge on police officer numbers focuses long term decision making on the inputs to policing rather than outcomes.

Local political challenges

Now in its fourth year, the Police and Crime plan is now firmly in its delivery phase. It is a plan which relies on the convening powers of the Mayor; it is not one which MOPAC and the Met can deliver in isolation, rather, success is only achievable by working in partnership with several stakeholders. The continued challenge for MOPAC is to ensure these partnership arrangements are operating effectively to deliver the tangible outcomes for the people of London. In addition to the delivery of the PCP, MOPAC are facing several local political challenge which requires navigation in the short to medium term:

- Mayoral elections next year
- Planning and consultation for the next police and crime plan
- Public communication of the success or otherwise of the current police and crime plan
- Managing the real and perceived rise in serious crime across London

Our response

We will consider your arrangements at each entity for managing and reporting your financial resources and delivering operational and strategic transformation as part of our work in reaching our Value for Money conclusions. This includes consideration of MOPAC's arrangements for monitoring, reporting and delivering the police and crime plan across multiple partners.

We will also consider, as part of our value for money work, your arrangements for delivering transformation and change across the organisation in order to meet the changing demands of policing within the context of the current financial and wider challenges faced.

2. Key matters impacting our audit

Factors

The MTFP and future financial resilience

Financial challenges in the police persist with increasing cost pressures and complexity. MOPAC and the MPS set a total revenue budget of £3.5bn for the 2019/20 financial year. At the end of Q3, MOPAC was forecasting a full-year net overspend of £21.7m equating to 0.8% of the total revenue expenditure budget.

The budget included savings of £35m. By the end of Q3, £15m of the £35m were considered 'undeliverable. Whilst £6.3m of alternative projects were identified, the forecast for savings delivery is £26m.

As well as short term budgetary challenges, the continued funding uncertainty poses a greater risk to financial sustainability. MOPAC has identified a budget gap of £480m by 2023/24 which is largely driven by continued uncertainty in respect of funding.

Integrated PEEL Assessment

In September 2019, HMICFRS published their fifth PEEL assessment of the Metropolitan Police.

The MPS was assessed as 'requires improvement' in Effectiveness and 'Good' with regards to Legitimacy and Efficiency.

Overall, the assessment was positive and HMICFRS commend the Metropolitan Police Service for the progress it has made over the past year. It explained that the force is generally improving and changes it is making are working.

Despite the direction of travel being positive, significant challenges remain, most notably how the force protects the most vulnerable.

Financial reporting and audit – raising the bar

The Financial Reporting Council (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 more robust testing as detailed in Appendix 1.

Grant Thornton's audit work across its client portfolio in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Accounting developments

International Financial Reporting Standard (IFRS) 16 were to be introduced across the public sector from 1 April 2020. This implementation has now been postponed by a year. IFRS 16 will have a significant impact on the way in which MOPAC accounts for leases, or other contracts which contain a lease. The standard will require management to assess the value of the right of use asset underlying any arrangement containing a lease and bring this on to the Balance Sheet, along with the present value of any associated liability.

MOPAC may be required to disclose in its 2019/20 financial statements the expected initial impact of the implementation of IFRS 16 on its net asset position and reserves.

Our response

We will consider your arrangements at each entity for managing and reporting your financial resources and delivering operational and strategic transformation as part of our work in reaching our Value for Money conclusions. We will also consider, as part of our vfm work, your arrangements for delivering transformation and change across the organisation in order to meet the changing demands of policing going forward in light of the financial and wider challenges you face.

We will consider whether your financial position leads to material uncertainty about the going concern assumption and will review related disclosures in the financial statements.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with both the Director of Finance at the MPS and the CFO at MOPAC.

We invited members of the finance team to attend our financial reporting workshops that took place in February 2020, these provided guidance and support on IFRS 16 implementation.

We will review management's assessment of the impact of IFRS 16 as at 1 April 2020, and review disclosures made in the 2019/20 financial statements, to gain assurance that the standard has been appropriately applied.

2. Key matters impacting our audit – Covid-19

Factors

Covid-19

Recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain.

For MOPAC and the MPS, we appreciate the significant responsibility and burden you have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended target date for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We continue to liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing a joint opinion on the MPS' and MOPAC's financial statements and VfM arrangements.

Our response

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as set out on page 11
- Reconsidered materiality levels which has not resulted in any changes to our materiality assessment as a result of the risk identified due to Covid-19

Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. Whilst we have not identified any new VfM risks in relation to Covid-19, its impact, at least in the short to medium term will have implications for the significant risk areas already identified.

Our work will therefore assess the effectiveness of arrangements in place in each of the significant risk areas in the context of a pre and post Covid-19 environment.

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?	Audit Scope	Risks identified	Planned audit approach
Mayor's Office for Policing and Crime	Yes	Audit of the financial information of the component using component materiality	See risks detailed on pages 6 and 7	Full scope UK statutory audit performed by Grant Thornton UK LLP
Commissioner of Police of the Metropolis	Yes	Audit of the financial information of the component using component materiality	See risks detailed on pages 6 and 7	Full scope UK statutory audit performed by Grant Thornton UK LLP
Empress Holdings Limited and subsidiaries	No	Out of scope	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.

4. 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 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>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 property, plant and equipment	Group and MOPAC	<p>MOPAC re-values land and buildings on a rolling basis over a 5-year period to ensure that carrying value is not materially different from current value.</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 risk requiring special audit consideration.</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; • discuss with the valuer (where necessary) 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 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 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 to current value at year end.
Valuation of pension fund net liability	Group and MOPAC	<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 identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</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 group's 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 – Covid – 19 pandemic

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Covid – 19	MPS, MOPAC and Group	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus 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"> • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

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 Report in July 2020.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Group and MOPAC	<p>The public sector was due to implement this standard from 1 April 2020. In March 2020 the implementation date was postponed until 1 April 2021. IFRS 16 will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Group and MOPAC’s 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the processes that the Group and MOPAC has adopted to assess the impact of IFRS16 on its 2021/22 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. Assess the completeness of the disclosures made by the Group and MOPAC in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

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 Report in July 2020.

6. 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 Reports and Annual Governance 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 the guidance issued 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 the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the MOPAC or the MPS under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - 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 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) 570). We will review management's assessment of the going concern assumption and material uncertainties and evaluate the disclosures in the financial statements.

7. Materiality

The concept of materiality

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. 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 materiality's based on a proportion of the gross expenditure of the group, MOPAC and MPS for the financial year. We have adjusted the gross expenditure figure used to determine materiality in all three financial statements to remove the impact of actuarial losses or gains on injury pensions.

In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materiality's, which is £51.329m (PY £64.594m), which equates to 1.5% of the MPS' prior year gross expenditure or the year.

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.

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 MOPAC and MPS

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 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 £2.566m (PY £3.230m).

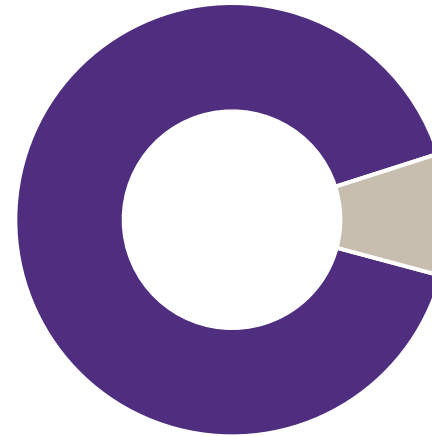
If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to MOPAC and MPS to assist it in fulfilling its governance responsibilities.

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

£3,539m Group

£3,539m MOPAC

£3,422m MPS



■ Prior year gross expenditure

■ Materiality

£53.090m

Group financial statements materiality (PY: £65.315m)

£53.095m

MOPAC financial statements materiality (PY: £65.338m)

£51.329m

MPS financial statements materiality (PY: £64.594m)

£2.566m

Misstatements reported to the MOPAC and the MPS (PY: £3.230m)

8. Value for Money arrangements

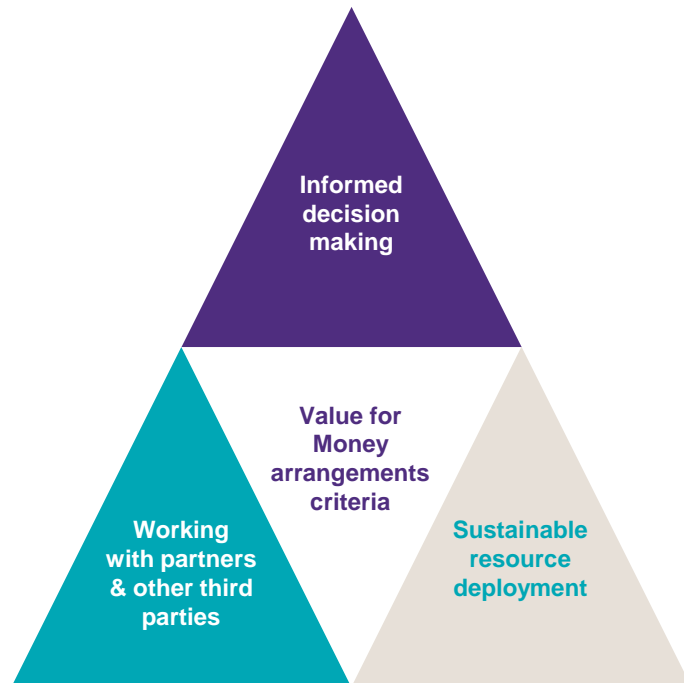
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The 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 below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Police and Crime Plan

The Police and Crime Plan places emphasis on high harm crimes, safeguarding and vulnerability. To deliver the outcomes of the plan relies on using the convening powers of the Mayor to work with partners to make London safer. The plan covers the period 2017-2021 and is entering a key phase of its delivery. Given the rise in demand and continued funding challenges for all public services, including policing, there are risks to deliver the outcomes set out in the police and crime plan.

We will review the arrangements in place to deliver the plan across the complex partnership structure. We will also review the arrangements in place to identify measures against which to assess and report progress effectively and transparently to stakeholders and the public.



Financial strategy and long-term sustainability

The MOPAC/MPS the draft budget submission to 2023/24 recognises the funding challenges currently faced in the short to medium term. The plan identifies a budget gap of £480m.

There is significant uncertainty about the future of police funding, in particular the exact phasing and nature of uplift funding and the potential reform of the police funding formula. This is further compounded by the political uncertainty created by the UK's withdrawal from the E.U. and the London Mayoral elections in May 2020. These factors create a risk that opportunities to invest created by the recent settlement are undermined by uncertainties about funding in the longer term.

We will review the arrangements for developing and agreeing the 2020/21 budget and medium-term financial plans, including the identification of savings plans, and consider the level of risk within these plans.

Value for Money arrangements



Strategic planning, governance and performance

'The Met's Direction: Our Strategy 2018-2025' sets out the MPS's long-term operational priorities, as well as the key areas of future focus. The MPS continues to develop its business planning arrangements to enable the delivery of this long-term vision.

The effective communication and delivery of this strategy in an organisation the size and scale of the MPS is a significant challenge. It requires engagement with multiple stakeholders and a detailed understanding of a large amount of complex information.

The MPS has recently introduced a performance framework dashboard. How this framework is used and links to both business planning as well as finance and transformation will be key. The identification and monitoring of benefits, both financial and non-financial remains key to your long-term outcomes.

Externally there is continued political uncertainty surrounding the UK's withdrawal from the EU, its impact on operational policing and the political impact it may have on future spending reviews. The next London Mayoral election was due to take place in May 2020 but has now been delayed by a year as a result of the COVID-19 epidemic.

We will consider the arrangements in place for implementing the new strategy including the links with business planning and the priorities in the Police and Crime Plan.



Transformation

The transformation capacity and capability within the MPS has matured significantly in recent years. The scale of transformation remains significant and there remains a risk that the level of activity in the portfolio grows in excess of the capacity to deliver it within both the Transformation Directorate and the wider business.

We will update our understanding of progress within the change portfolio and the current levels of risk to delivery. We will follow up recommendations made from previous years and determine progress.

Audit logistics, team & fees



Iain Murray, Engagement Lead

Iain will be the main point of contact for the Deputy Mayor of Policing and Crime, the Deputy Chief Commissioner, 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 take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value. Iain will sign your audit opinion.

Parris Williams, Audit Manager

Parris is responsible for planning, managing 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, Assistant 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, Audit In-charge

Corinne is responsible for the delivery of the audit, acting as first port of call for the finance team in light of any technical financial 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.

Client responsibilities

Where clients 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 clients. 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 deadline 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
- 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.

10. Audit fees

Planned audit fees 2019/20

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. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been discussed with the Director of Finance of both MOPAC and the MPS and is subject to PSAA agreement.

	Actual Fee 2018/19	Proposed fee 2019/20
MOPAC	£119,933	£133,508
MPS	£92,400	£92,400
Total audit fees (excluding VAT)	£212,333	£225,908

Assumptions:

In setting the above fees, we have assumed that the Authority 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](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale (contracted in the case of non PSAA) fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	193,908	
Raising the bar	8,000	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. As MOPAC is a major audit and as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	8,000	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	8,000	We have therefore engaged our own audit expert – (Wilks Head and Eve) and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. The increase in fee includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditor's expert will be in the region of £8,000.
Group Accounts	4,000	MOPAC has recently acquired a new subsidiary (ESB Holdings LTD). This increases the scope and complexity of the work we need to do around the group consolidation. Furthermore, we are increasing the depth and scope of our work around the group disaggregation process.
Introduction of a new accounting standard and emerging developments	4,000	<p>You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.</p> <p>The impact of the Coronavirus on the financial statements has been highlighted as a financial statement level risk and will require careful consideration from an accounting and audit perspective.</p>
Revised scale fee (to be approved by PSAA)	225,908	

11. Independence & 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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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 December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No other services were identified.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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