MOPAC | MAYOR OF LONDON OFFICE FOR POLICING AND CRIME

METROPOLITAN POLICE

MPS-MOPAC JOINT AUDIT PANEL
4 July 2022

External Audit Report

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

<u>**Report Summary**</u>

Overall Summary of the Purpose of the Report
This paper updates the Audit Panel on the Joint Audit Plan for 2021/22, and provides the regular update Audit Progress Report and Sector Update.

Key Considerations for the Panel
To note the Joint Audit Plan for 2021/22, noting that there are no significant issues to report at this stage.

Interdependencies/Cross Cutting Issues
The external audit function provides an independent opinion on the statutory accounts and the arrangements for delivering value-for-money which are used as a basis to inform the AGS and governance improvement.

Recommendations
The Audit Panel is recommended to:
a. Note the Joint Audit Plan for 2021/22
b. Note the external audit update report

1. Supporting Information

Joint Audit Plan 2020/21 – Appendix One

1.1. The Joint Audit plan for 2021/22 provides an overview of the planned scope and timings of the statutory audits of MOPAC and the MPS that will be undertaken by the external auditors (Grant Thornton). This includes the Value for Money (VFM) arrangements. The plan has been discussed with both the Deputy Mayor for Policing and Crime and the Commissioner.

1.2. The plan sets out those risks that will require specific audit consideration. These are as follows:-

(a) The risk that the revenue cycle includes fraudulent transactions (rebutted).
(b) The risk of management override of controls
(c) The risk that the valuation of land and buildings is materially misstated
(d) The risk that the valuation of the net pension liability in the accounts is materially misstated.

1.3. In addition within the VFM section the following risks of significant weakness have been identified:

(e) The risk that arrangements may not be working effectively to ensure trust and confidence within the MPS, as well as ensuring appropriate arrangements are in place to install trust and confidence within the MPS.

(f) The risk that arrangements are not operating effectively to mitigate against delivery of two major transformation projects relating to the CONNECT and Command and Control projects which could cause risks to the operational delivery as well as significant financial loss and delivery of planned benefits.

1.4. Grant Thornton undertook interim visits in March, with final visits due to take from late June.

Audit Progress Report and Sector Update - Appendix Two

1.5. Grant Thornton undertook interim audit work in March as part of the annual audit of the statement of accounts for MOPAC and the MPS. No issues have been identified to date.

1.6. The audit of the draft statement of accounts is due to take place from late June, with the auditors planning to provide their Audit opinion on 30 September 2022. The auditors annual report will be issued by 30 December 2022.

2. Equality and Diversity Impact

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

3. Financial Implications

The proposed audit fee for 2021/22 is £309,529. Of which £169,052 relates to MOPAC and £140,477 relates to the MPS. Costs will be met from existing resources within MOPAC and the MPS.

4. Legal Implications

There are no direct legal implications arising from the report.

5. Risk Implications

This paper relates to the MPS and MOPAC corporate risk register entries for resources and value for money.

6. Contact Details

Annabel Cowell Deputy Chief Finance Officer and Head of Financial Management MOPAC, Lisa Kitto Interim Chief Finance Officer and Director of Corporate Services

7. Appendices and Background Papers

Appendix 1 – Joint Audit Plan 2020/21
Appendix 2 – Audit Progress Report and Sector Update

Joint Audit Plan

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

Year ending 31 March 2022

July 2022

Contents

Your key Grant Thornton team members are:

Iain Murray
Key Audit Partner
T +44 (0)20 7728 2439
E iain.g.murray@uk.gt.com

Parris Williams
Senior Audit Manager
T +44 (0)20 7728 2542
E parris.williams@uk.gt.com

Rebecca Lister
Audit Manager
T +44 (0)20 7728 2529
E rebecca.lister@uk.gt.com

John Leggett
Assistant Audit Manager
T +44 (0)20 7383 5100
E john.aw.leggett@uk.gt.com

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 Police and Crime Commissioner and Chief Constable 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.

Key matters

Factors	Our response
Police sector developments <u>Police Funding Settlement 2023/23</u> The Home Office has published the provisional police funding settlement for 2022/23. The Government is proposing a total police funding settlement of up to £16.9 billion for policing in 2022/23. Overall funding available to PCCs will increase by up to £796m next year - an increase of up to 5.8% when compared to the 2021/22 funding settlement – if PCCs make full use of their flexibility to increase precept. The funding package includes: •An additional £550 million Government funding to PCCs, including funding to drive the recruitment of the final 8,000 extra officers to reach the 20,000 recruitment target by the end of March 2023. •Up to an additional £246 million from council tax precept, subject to decisions by PCCs. •£1.4 billion for national priorities, including police technology. •Counter-terrorism police funding increasing to over £1 billion for the first time. <u>Police Officer Uplift</u> The Government is committed to delivering an additional 20,000 officers by March 2023. Latest statistics show that, as of 30th September 2021, 11,053 of these officers were already in place. The MPS was provided with a total uplift allocation of 4,557 officers over a 3 year period. As at December 2021, 2,121 additional officers had been recruited through the police officer uplift programme.	• We will consider your arrangements in place to secure financial resilience and sustainability for both the MPS and MOPAC as part of our value for money work.
Local context and events MOPAC and the MPS have both faced a number of challenges this year including a number of high profile issues which have impacted trust and confidence of the Met. A number of independent reviews are underway and are due to be reported on in the 2022/23 financial year. The Met recognise the issues that it faces and are undertaking work to rebuild trust and confidence in its police force. The Met has a clear priority to be recognised as a responsible, exemplary and ethical organisation which is set out in the 2021/24 Met Business Plan. The Mayoral elections took place in May 2021 where Sadiq Khan was reappointed for a second term as Mayor of London. As part of a new mayoral term, a new Police and Crime Plan (PCP) has been drafted which outlines the Mayor's key priorities for the next four years. A draft PCP was issued for consultation on 16 November 2021 and the final PCP was released on 24 March 2022. In line with the release of the new PCP, MOPAC has been revisiting it's oversight and governance structures to ensure there is a clear framework which maps across to the priorities of the PCP to ensure effective oversight of the Met in delivering the priorities set out in the PCP.	• We will review the arrangements in place to ensure organisational learning is acted upon from any recommendations raised as part of independent reviews that have been raised as well as arrangements in place to oversee effective delivery of rebuilding trust and confidence within the Met. • We will consider the governance arrangements in place at both MOPAC and the MPS to ensure delivery of key priorities as set within the Police and Crime Plan.

Key matters

Factors

Accounting and auditing developments

Emergency proposals for temporary changes to the Code

DLUHC asked CIPFA to consider changes to the Code to help alleviate delays to publication of audited financial statements. In response CIPFA LASAAC issued an exceptional consultation which explored two possible changes that may be made as an update to the 2021/22 code and to the 2022/23 code. CIPFA LASAAC preliminary decision was published on 17 March 2022 which highlighted the following:

- not to progress any of the proposals around pausing formal valuation of assets; and
- to pursue the proposal on deferring IFRS 16, but note that this is the Board's preliminary decision, subject to the other steps in the governance process. These include consideration and review by the FRAB, and further formal approval processes at CIPFA via PFMB and at LASAAC.

Subsequent to the preliminary decision, FRAB has agreed with the deferral of IFRS 16 to 2024/25 but advised that the Code must also allow for early adoption from 1 April 2022 or 1 April 2023.

Our response

- We will continue to provide you with sector updates through our quarterly progress and sector update reports.
- We will liaise with key finance staff on the audit impacts of any sector or regulatory changes affecting the financial statements.

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 (DMPC) 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 of management override of controls.
- 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.

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 calculated materiality individually for the Group, MOPAC and the MPS. In determining materiality for the financial statements for the group, MOPAC and the MPS we have selected the lowest level of materiality being the materiality level for the MPS and applied that level of materiality for the group, MOPAC and the MPS financial statements.

We have determined planning materiality to be £58m (PY £55.5m) for the group, MOPAC and MPS, which equates to 1.5% of the 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 £2.9m (PY £2.775m).

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100,000 for exit packages.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Risk that arrangements are not working effectively to ensure trust and confidence is maintained within the MPS as well as ensuring appropriate arrangements are in place to rebuild trust and confidence within the MPS
- Risk that arrangements are not operating effectively to mitigate against delivery of two major transformation programmes relating to the CONNECT and Command and Control programmes which could cause risks to operational delivery as well as significant financial loss and delivery of planned benefits.

Introduction and headlines

Scope of our audit

The scope of our audit 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 MOPAC, MPS and the group's financial statements that have been prepared by management with the oversight of those charged with governance (the DMPC and the Commissioner); and we consider whether there are sufficient arrangements in place at each body for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Deputy Mayor for Policing and Crime and the Commissioner of your responsibilities. It is the responsibility of the Deputy Mayor for Policing and Crime and the Commissioner 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 the Deputy Mayor for Policing and Crime and the Commissioner are fulfilling these responsibilities.

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

Value for Money arrangements (continued)

We have identified no further risks of significant weakness as part of our initial planning and risk assessment work. As part of our value for money work we will however update our understanding of your arrangements in place for the following areas:

- Your arrangements in place to ensure a robust financial strategy and secure long term financial sustainability
- Developments in governance frameworks of MOPAC in carrying out your statutory responsibility for oversight of the MPS
- Your arrangements in place to deliver the transformation programme and provide innovation to secure savings and efficiencies for the MPS and MOPAC
- Your arrangements in place to assess and understand drivers underlying organisational performance and learn from past performance to identify areas for improvement.
- Your arrangements in place to produce, monitor and ensure delivery of the Police and Crime Plan.

Audit logistics

Our interim visit will take place in 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 fee for the audit will be £169,052 (PY: £159,483) for MOPAC and £140,477 (PY: £132,525) for the MPS, subject to the bodies delivering a good set of financial statements 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		• Management over-ride of controls • Valuation of land and buildings • Valuation of pension fund net liability	Full scope audit performed by Grant Thornton UK LLP
Commissioner of Police of the Metropolis	Yes		• 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	• None	MOPAC holds 100% of the issued share capital of Empress Holdings Limited and its subsidiaries ("Empress Holdings Group"), which holds the freehold interest in the Empress State Building (ESB). On 3 April 2018 the beneficial interest in Empress State Building was transferred to MOPAC. Empress State Building was classified under Property, Plant and Equipment in the MOPAC single entity accounts at 31 March 2021. In 2020/21 these companies were placed in liquidation and the final process of winding up the companies is in progress. The net residual interest in the Empress Holdings Group for MOPAC at 31 March 2021 was the issued share capital which was valued at nil, and therefore liquidating the companies had no net impact on the group accounts. We will review the judgement of management not to consolidate Empress Holdings Limited and subsidiaries 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.	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 for all revenue streams can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of police authorities, including MOPAC and the group, mean that all forms of fraud are seen as unacceptable. **Therefore we do not consider this to be a significant risk for MOPAC and the group.** 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. **Therefore we do not consider this to be a significant risk for the MPS.**
Management over-ride of controls	**Group, MOPAC and MPS**	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. MOPAC and the MPS face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. 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.	We will: • 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**	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. 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. Within the valuation of MOPAC's specialised operational land and building sites the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build costs, the size and location of the sites and any judgements that have impacted this assessment and the condition of the property site. Non-specialised asset valuation estimates are sensitive to inputs including market rent, yields and size of asset. You have utilised Montagu Evans to value your estate at 30 September 2021. You also plan to carry out a market review of asset movements up to 31 March 2022 to ensure there is no significant movements in asset values between the date of the valuer's report and the date of the financial statements. We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	**Group, MOPAC and MPS**	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. This estimate by its nature is subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used. We do not believe there is a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation or due to the source data used in their calculation *(unless any significant events have occurred, such as significant special events (i.e. redundancies, bulk transfers or outsourcing), material transfers or material membership movements which the actuary may not have taken into account.)* However, we have concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. As noted above, as noted above, the appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the entity may choose to use different assumptions than those proposed by their actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. 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.	We will: • 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.

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 one recommendation in our 2020/21 audit in relation to in relation to MOPAC and the group's estimation process for the valuation of land and buildings.

Introduction

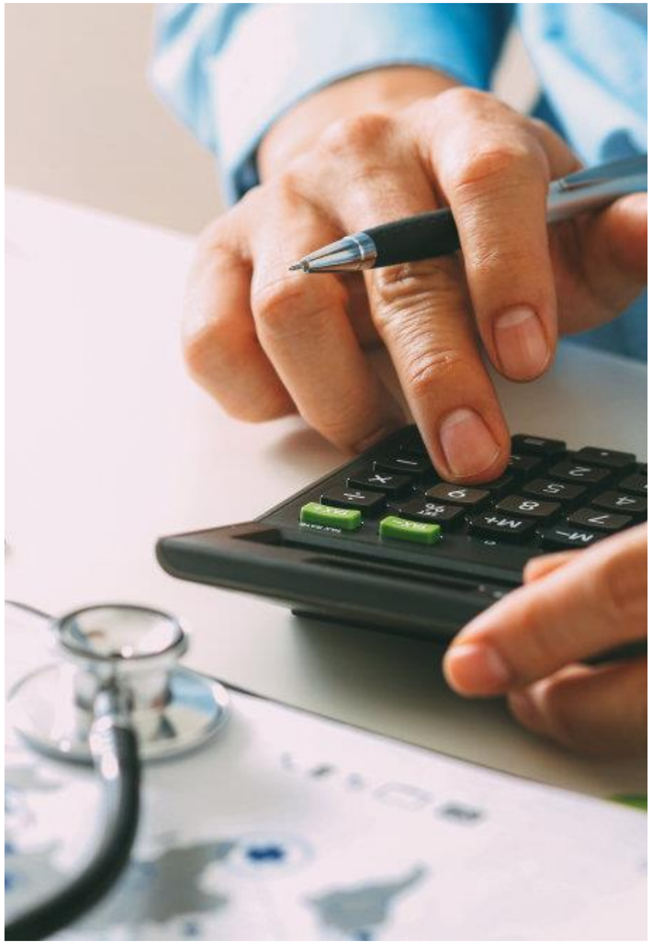
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- 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 audits for the year ended 31 March 2022.

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
- Accruals including the accumulated absence accrual and the Home Office top up accrual
- Valuation of police officers pension liability
- PFI liabilities

MOPAC and the MPS' 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 the bodies use 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 the bodies (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

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 uncertainly 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

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 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 Statements 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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to MOPAC or the MPS 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 audits.

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.

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 materiality based on a proportion of the prior year gross expenditure of the group, MOPAC and MPS adjusted for the effects of nonrecurring items. In the prior year we used the same benchmark.

We have calculated materiality individually for the Group, MOPAC and the MPS. In determining materiality for the financial statements for the group, MOPAC and the MPS we have selected the lowest level of materiality being the materiality level for the MPS and applied that level of materiality for the group, MOPAC and the MPS financial statements. For our audit testing purposes we will apply the lowest of these materiality's, which is £58m (PY £55.5m), which equates to 1.5% of the MPS's prior year gross expenditure for the year adjusted for the effects of nonrecurring items.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100,000 for exit packages.

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 Deputy Mayor for Policing and Crime and the Commissioner of the Police of the Metropolis

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 £2.9m (PY £2.775m).

If management have corrected material misstatements identified during the course of the audits, we will consider whether those corrections should be communicated to the Deputy Mayor for Policing and Crime and the Commissioner of the Police of the Metropolis to assist in fulfilling your governance responsibilities.

Prior year gross expenditure (adjusted for the actuarial loss on injury pensions costs)

2020/21: £4,033m Group

(2019/20: £3,826m)

2020/21: £4,033m MOPAC

(2019/20: £3,826m)

2020/21: £3,871m CPM

(2019/20: £3,723m)

Materiality

£60.492m
Group financial statements materiality
(PY: £57.397m)

£60.4m
MOPAC financial statements materiality
(PY: £57m)

£58,000m
MPS financial statements materiality
(PY: £55.5m)

£2.9m
Misstatements reported to the MOPAC and MPS
(PY: £2.775m)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit Area	Planned level IT audit assessment
Oracle EBS (PSOP)	Financial Reporting	A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure was carried out by our internal IT specialists team in the 2020/21 financial year. No significant control deficiencies were identified as a result of the review carried out over Oracle EBS. We therefore plan to place reliance on the work performed in the prior year in relation to the design effectiveness of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach. We will also follow up on any recommendations made in the prior year in relation to IT general control to assess whether these have been actioned by management.
Real Asset Management (RAM)	Fixed Asset Register	A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure was carried out by our internal IT specialists team in the 2020/21 financial year. No significant control deficiencies were identified as a result of the review carried out over RAM. We therefore plan to place reliance on the work performed in the prior year in relation to the design effectiveness of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach. We will also follow up on any recommendations made in the prior year in relation to IT general control to assess whether these have been actioned by management.

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued its guidance for auditors in April 2020. The Code requires 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 below:

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. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. 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 overleaf.

Risks of significant weakness

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

Risk of significant weakness:

Risk that arrangements are not working effectively to ensure trust and confidence is maintained within the MPS as well as ensuring appropriate arrangements are in place to rebuild trust and confidence within the MPS.

Risk Impact/Implication:

There is a risk that arrangements may not be operating effectively to ensure that appropriate ethical and behavioural standards are being met. There is also a risk that appropriate arrangements are not in place to ensure public trust and integrity within the MPS. The wider implications of this risk could impact on planned recruitment, delivery of operational priorities as well as delivery of Met Direction and the Police and Crime Plan.

Response to assessed risk:

In response to this risk we will perform the following procedures:

- Review your arrangements in place to monitor and ensure ethical and behavioural standards are met including;
    - Review of staff survey results
    - Review of arrangements in place to ensure a 'speak up' culture
    - Review of arrangements to ensure concerns of misconduct or breaches of the code of ethics/conduct is appropriately followed up and acted upon
    - Review of governance arrangements in place to ensure information relating to misconduct and ethical values is appropriately communicated to all staff as well as arrangements in place to monitor ethical behaviour and standards of staff
- Review of arrangements in place to rebuild trust and confidence in the MPS as part of the Rebuilding Trust plan.
- Review of actions plans in place to reviews undertaken relating to ethical behaviour and standards and rebuilding trust and integrity.

Risks of significant VFM weaknesses

Risks of significant weakness (continued)

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

Risk of significant weakness:

Risk that arrangements are not operating effectively to mitigate against delivery of two major transformation programmes relating to the CONNECT and Command and Control programmes which could cause risks to operational delivery as well as significant financial loss and delivery of planned benefits.

Risk Impact/Implication:

There is a risk that the MPS and MOPAC could incur significant financial loss where CONNECT and Command and Control IT projects continue to be delayed. There is also a risk that where CONNECT and Command and Control are not delivered when planned for this could have operational impacts including:

- Failure to deliver operational priorities
- Potential for data quality issues where legacy IT systems continue to be used in the absence of the CONNECT system
- Failure to deliver organisational priorities including "*seize the opportunities of data and digital tech*"

Response to assessed risk:

In response to this risk we will perform the following procedures:

- Review your arrangements in place to monitor and track delivery of CONNECT and Command and Control programmes
- Review your arrangements in place to ensure supplier engagement is operating effectively
- Review your arrangements in place to revisit and update planning assumptions and business cases relating to CONNECT and Command and Control programmes.

Risks of significant VFM weaknesses

Other areas of focus

We have identified no further risks of significant weakness as part of our initial planning and risk assessment work.

As part of our value for money work we will however update our understanding of your arrangements in place for the following areas:

- Your arrangements in place to ensure a robust financial strategy and secure long term financial sustainability
- Developments in governance frameworks of MOPAC in carrying out your statutory responsibility for oversight of the MPS
- Your arrangements in place to deliver the transformation programme and provide innovation to secure savings and efficiencies for the MPS and MOPAC
- Your arrangements in place to assess and understand drivers underlying organisational performance and learn from past performance to identify areas for improvement.
- Your arrangements in place to produce, monitor and ensure delivery of the Police and Crime Plan.

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 2022 — Planning and risk assessment

Interim audit March 2022

May 2022 — Audit Plan

Year end audit July and August 2022

By 30th September 2022 — Audit Findings Report and Audit Opinion

By 30th December 2022 — Auditor's Annual Report

Iain Murray, 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.

John Leggett, Assistant Manager

John 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. John monitors the deliverables with your finance team, highlighting any significant issues and adjustments to senior management. John will undertake the more technical aspects of the audit and coach the junior members of the team.

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. The fee agreed in the contract was £101,508 for MOPAC and £92,400 for the MPS. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2021/22 audit.

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 detailed on page 11 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures

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 valuation estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been agreed with the Chief Finance Officers.

	Actual Fee 2019/20	Final Fee 2020/21*	Proposed fee 2021/22
MOPAC Audit	£153,534	£159,483	£169,052
MPS audit	£106,260	£132,525	£140,477
Total audit fees (excluding VAT)	£259,794	£292,008	£309,529

*The final fee variation is subject to PSAA approval.

Assumptions

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

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audits
- 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	23,407	16,666		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.
Value for Money (VfM) work	26,924	19,159		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	10,328	7,351		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	6,885	4,901		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. In response to the new Standard, and to the increased expectations of regulators, we are heightening our focus on fraud risks. 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.
Revised scale fee (to be approved by PSAA)	**169,052**	**140,477**	**309,529**	

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, except for the matter outlined below. 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 and the MPS.

We have been notified through a personal declaration that a person closely associated with a member of the audit engagement team has been offered a role as a trainee detective with the MPS and is due to begin their role at the end of the summer period (once vetting clearance has been obtained). We have consulted with our internal ethics team and have concluded that a perceived threat to independence may exist for the individual working within the audit engagement team for the MPS and MOPAC. We have therefore implemented the following safeguards to address this perceived threat to independence:

- We have rotated the individual off of the audit engagement team
- We have restricted the individual's access to audit files and any other data sharing systems relating to the audit of the MPS and MOPAC
- The individual does not line manage (directly or indirectly) anyone working in the audit engagement team
- All members of the audit engagement team have been informed of the threat to independence and notified that no information or discussion of the audit engagement should be held with the individual concerned.

Based on the safeguards implemented above we have concluded that the threat to independence has been mitigated to an acceptable level and therefore conclude we have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and confirm that we are independent and able to express an objective opinion on the financial statements.

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: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of MOPAC and the MPS' financial statements, which resulted in three recommendations being reported in our 2020/21 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
On-going	<u>Land and Building Valuations</u> Within the financial statements MOPAC has included a policy on valuations whereby the top 20 highest value properties as well as 20% of residual assets are subject to physical inspection by the valuer. We have identified one asset that was omitted from the inspection list of residual 20% of assets (Imber Court Sports Club and Mounted Branch). It is important to recognise that despite not being subjected to a physical inspection, this asset will still have received a full revaluation as every asset has done. Total value of this asset is £14,891k per 19/20 net book value. This is significantly below materiality. Therefore the asset value would have to move by circa 370% in order to constitute a material misstatement within the financial statements. We are therefore content that the fact this property was omitted from inspection will not constitute a material misstatement. This inconsistency does however present a risk that assets are not captured in the rolling review programme to ensure the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. This is because regular physical inspection ensures greater accuracy of property valuations and reflects better potential impairments and property changes over time. We have concluded from our review that the risk of material misstatement to the financial statements as a result of this inconsistency is less than remote. Recommendation: Management should ensure that accounting policies adopted for property valuations are appropriately applied and that classes of asset are captured for physical inspection on a rolling basis to ensure the carrying value is not materially different to the current value determined at the end of the reporting date.	As part of our interim work we have inspected communications made between Management and the Valuer confirming that all agreed upon assets have been subject to a physical inspection. Our detailed audit work in this area will be conducted after the year end reporting date to assess whether all assets due for physical inspection have been subject to physical inspection by your external valuer. We will provide an update on this issue within our Audit Findings Report.
On-going	<u>Plant and Equipment Assets</u> As part of our audit testing we selected a sample of nil net book value assets within plant and equipment and noted a number of these assets remained on the asset register at nil net book value as management were unable to identify the relevant asset holder and therefore were unable to conclude whether the asset remained in use or not. Management has shown prudence by keeping these assets on the asset register however there is a risk that gross cost and accumulated depreciation is overstated where an asset is still in use and the useful economic life has not been revisited or should be shown as a disposal or derecognised where the asset is no longer in use. Recommendation: Management should look to improve this process to ensure assets that are no longer in use are removed from the asset register or if still in use, UELs should be updated to ensure the net book value is appropriate.	Management has been considering this issue as part of their preparations for this year's audit. Our audit work in this area will be conducted after the year end reporting date to assess whether assets that are no longer in use are removed from the asset register or if still in use, UELs have been updated to ensure the book value is appropriate.

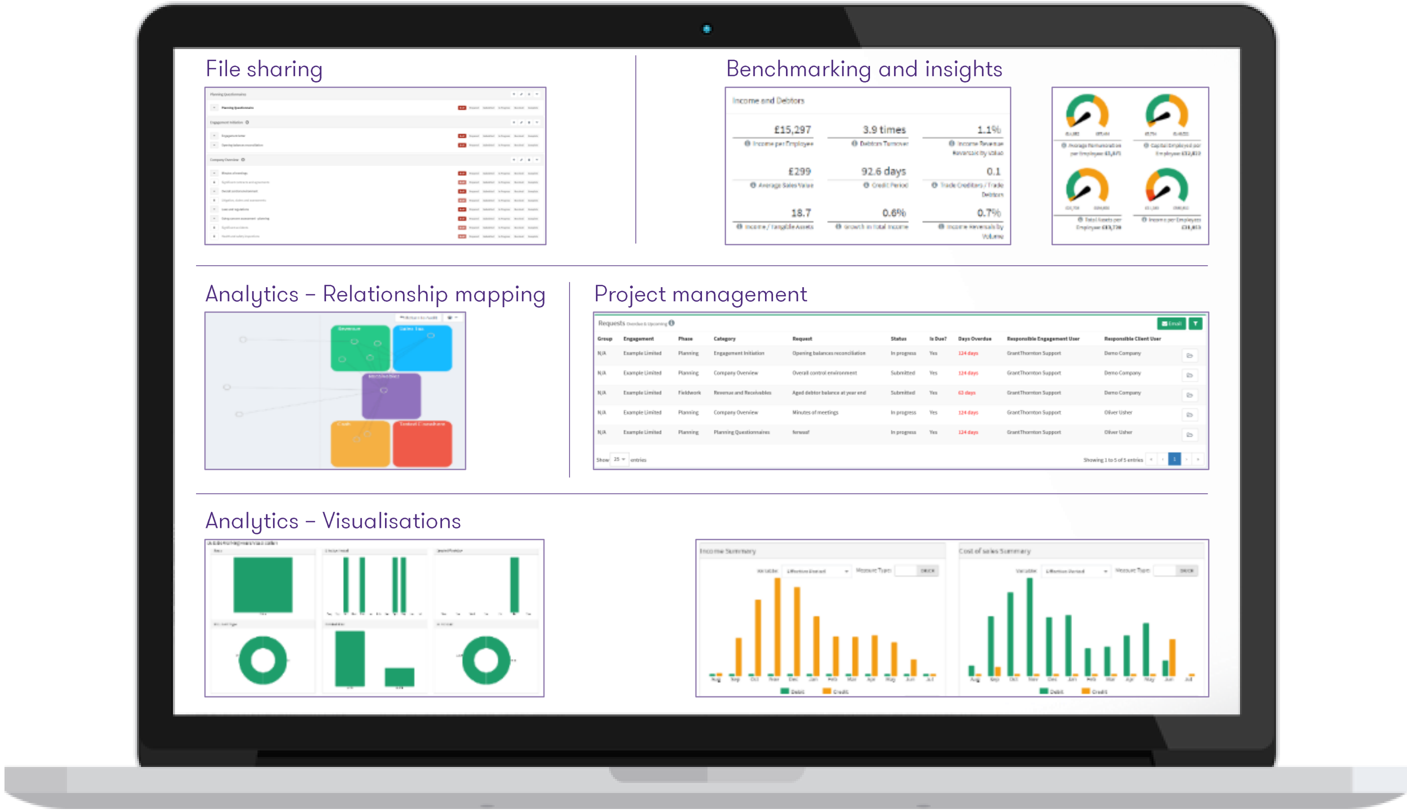
Appendix 1: Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
On-going	<u>Movement in Reserves</u> From our review of the movement of reserves statement we noted a reconciliation difference of £4.3m between the CIES movement and the movement between opening and closing reserves in the balance sheet. This was due to two separate issues: 1) An adjustment made for £1.4m relating to property, plant and equipment that went directly to the Capital Adjustment Account (Unsuable Reserves) however no entry was made through the CIES and therefore was subsequently not accounted for through the MIRS. 2) £2.9m of capital grants which were received however were unapplied and therefore should have been recognised within the capital grants unapplied account. Note 30 Adjustments between accounting basis and funding basis under regulations noted the full amount of capital grants received £35m were applied from useable reserves within only £32m being applied through unusable reserves therefore creating a £2.9m difference between useable and unusable reserves. We are satisfied the reconciling issues identified are isolated to these two areas and therefore is not indicative of a material imbalance within the accounts. An imbalance between reserves could indicate inaccurate accounting entries which presents the risk that there is a gross material error within the financial statements as a result of incorrect accounting entries. We have investigated the reasons for the discrepancy identified in the MIRS and are satisfied that there is no material error as a result of this discrepancy. Recommendation: Checks should be carried out within the quality review stages of producing the financial statements to ensure the CIES movement in year reconciles accurately to the opening and closing reserves movements, any variances identified during this process should be followed up and investigated to ensure there is not any material issues underlying the reconciling difference. As this error will roll-forward into future years it is also recommended that management look to correct this error to ensure future financial statements balance correctly.	As part of our work performed on opening balances we have noted that management have corrected £2.5m of the reconciling issue relating to capital grants unapplied. We will perform a detailed check at year end to ensure the movement in reserves agrees to the movements noted within the CIES and movement between opening and closing balances within the Balance Sheet, to detect whether there are any reconciling issues for the 2021/22 financial year.

Appendix 2: Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Appendix 2: Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Grant Thornton

grantthornton.co.uk

Mayor’s Office for Policing and Crime
The Commissioner of Police of the Metropolis
Audit Progress Report and Sector Update

Year ending 31 March 2022

July 2022

Contents

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 entity 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.

Key Grant Thornton team members

Iain Murray

Engagement Lead

T 0207 184 4301
E iain.g.murray@uk.gt.com

Parris Williams

Senior Manager

T 0207 728 2542
E parris.williams@uk.gt.com

Rebecca Lister

Engagement Manager

T 0207 728 2529
E rebecca.lister@uk.gt.com

Iain will have ultimate responsibility for the delivery of your audit service. Specifics of the role include:

- leading our relationship with the Mayor's Office for Policing and the Commissioner of Police of the Metropolis, ensuring you have access to Grant Thornton's full service offering;
- being a key contact for the Chief Finance Officers and the Joint Audit Panel, meeting frequently with key members of management;
- taking overall responsibility for delivering high quality audits which meet professional standards;
- agreeing with you the annual joint audit plan, and a timetable for delivering the work;
- reviewing the audit file, giving particular focus to any key areas of risk or critical judgements exercised during the audits;
- reviewing and signing off all audit reports;
- attending Joint Audit Panel meetings to discuss key issues arising from our work and any recommendations;
- acting as a 'sounding board' on key decisions relevant to our responsibilities as your auditors; and
- sharing good practice identified at other organisations.

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. He will respond to ad-hoc queries whenever raised and meet regularly with the Chief Finance Officers and members of the finance team. Specifics of the role include:

- ensuring responsibility for delivering high quality audits which meet professional standards;
- reviewing the quality of audit reports;
- reviewing the work focusing on the key areas of risk pertaining to the audit; and
- attending and contributing to senior audit liaison meetings, sharing good practice identified at other organisations.

Rebecca will ensure that all work allocated is carried out on a timely basis in accordance with the firm's professional standards and to the satisfaction of clients and engagement lead.

As the key contact Rebecca will be responsible for building and maintaining good working relationships with all colleagues and clients.

To support delivery of the testing strategy she will:

- assist the engagement lead in establishing audit objectives and overall scope;
- ensure key matters which arise during the audits which were not identified at the planning stage are properly assessed and dealt with;
- review the work of in-charge auditor and the wider fieldwork team;
- finalise our draft reports to management;
- manage, motivate and coach team members; and
- control the audits in relation to timescales, budgets and risk management procedures.

Introduction & headlines

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

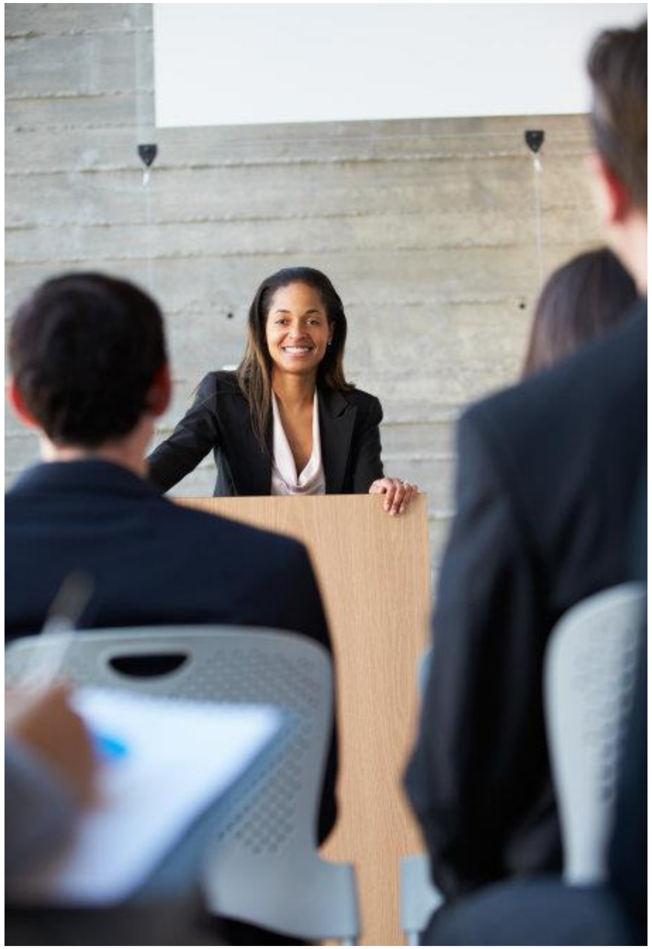
The paper also includes a summary of emerging national issues and developments that may be relevant to you.

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.

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.

We continue to bring specialists to our update conversations where appropriate to share any learning from our position as a leading audit supplier to the police sector.

You will also have access to our annual Chief Accountant Workshops and any other networking opportunities we create for the various stakeholders.



The auditor’s statutory responsibilities

Opinion on the audited body’s financial statements

Our work enables us to give an opinion as to whether the financial statements:

- give a true and fair view of the financial position of the audited body and its expenditure and income; and
- have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards and other directions.

Our planning will document our understanding of your key risks, your control environment and inform our testing strategy. This will continue until we begin our final accounts testing.

Since we last reported we have:

- continued to have regular discussions with management discussing issues identified in previous audits, and emerging themes which are expected to impact on the current audits;
- reviewed meeting papers and the latest financial and operational performance reports ensuring we understand your current challenges;
- considered any reports from regulators regarding your operational effectiveness.

We issued our joint audit plan summarising our approach to key risks on the audit to management in April 2022. A copy of the joint audit plan for audit panel members is included as a separate agenda item to this report.

We will deliver our final accounts audits in July to September and summarise our work in the Audit Findings Report.

Work on value-for-money arrangements

Under the 2020 Audit Code of Practice, we are required to undertake sufficient work to satisfy ourselves that the Mayor’s Office for Policing and Crime and the Commissioner of Police of the Metropolis “has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.”

Our initial risk assessment will build on our understanding of your arrangements, taking into account any findings from previous work on value for money. Our risk assessment findings have been included within the join audit plan which has been included as a separate agenda item to this report. Our risk assessment has been performed in line with the following reporting criteria:

- 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.

We will keep our risk assessment under continuous review. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to you. Our final commentary in the Auditors’ Annual Report will include:

- a summary of our findings on any risks identified during our work;
- our judgements on the adequacy of the the Mayor’s Office for Policing and Crime and the Commissioner of Police of the Metropolis’ arrangements for each of the three reporting criteria, as set out above;
- any recommendations made to management as a result of our work; and
- a follow up of progress against any recommendations raised in previous audits.

The auditor's statutory responsibilities

Other responsibilities

We are required to give an opinion on whether:

- other information published together with the financial statements is consistent with the financial statements.

We are also required to:

- consider whether the Annual Governance Statement complies with relevant disclosure requirements and whether it is consistent with the information we are aware of from our audit; and
- examine and report on the consistency of 'Whole of Government Accounts' consolidation schedules with the financial statements.

We will complete this work as part of our financial statements visit.

Other statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audits.

Our work to date has not required us to report any such matters to you.

Added value

Grant Thornton has a large Public Sector practice and is a key supplier to the market. As a valued audit client, you will receive:

- the opportunity to access support from experienced technical colleagues. This means you will be at the forefront of accounting developments. Through this relationship we also ensure that communication works both ways and feed issues back from our clients.;
- insight from our regular meetings within the sector where we discuss emerging developments. We will also raise any areas of concern that you have over policy, procedure, or regulation with your regulators; and
- technical and sector updates for the Joint Audit Panel.

Progress at April 2022

Financial Statements Audit

We undertook our initial planning and interim audit for the 2021/22 financial statement audit in March 2022. We expect to begin our work on your draft financial statements in late June.

Our interim fieldwork includes:

- Updated review of the Mayor's Office for Policing and Crime (MOPAC) and the Commissioner of Police of the Metropolis (CPM) control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how MOPAC and the CPM make material estimates for the financial statements
- Early work on emerging accounting issues

We will report our work and findings within the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 September 2022.

The Accounts and Audit (Amendment) Regulations 2021 has pushed back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited accounts to 30 November 2022 for the 2021/22 accounts.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report by 30 December 2022.

Progress at April 2022 (cont.)

Other areas

Meetings

We met with Finance Officers in April and May as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with the Deputy Mayor of Policing and Crime in April and the MPS Chief of Corporate Services in May to discuss strategic priorities and plans.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, 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 additional and more robust testing.

Our work in the Local Government and Police sectors in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of public sector financial transactions and financial reporting. This combined with the FRC requirement that all Local Government and Police audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your Chief Finance Officer(s) including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Joint Audit Panel, Deputy Mayor for Policing and Crime and Commissioner of Police of the Metropolis.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

2021/22 deliverables

2021/22 Deliverables	Planned Date	Status
Accounts 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 our opinions on the 2021-22 financial statements.	July 2022	Attached as a separate agenda item to this report
Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report.	July 2022	Included within this report
Joint Audit Findings (ISA260) Report The Joint Audit Findings Report will be reported to the October Joint Audit Panel.	October 2022	Not due yet
Auditors Reports These are the opinions on your financial statements and annual governance statements.	October 2022	Not due yet
Auditor's Annual Report The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). A final copy of the AAR will be taken to the January Joint Audit Panel.	January 2023	Not due yet

Early Testing Audit Tracker

We have worked closely with management and finance officers this year to support the audit process and held a wash up session in January to track and implement any lessons learned from previous year audits.
We have outlined below progress to date on risk assessment and early testing in relation to the financial statement audit.

Audit Area	Planned activity	Progress	Issues and actions	Findings	Audit progress
Planning and risk assessment	Review of control environment	We performed a review of your control environment and documented our knowledge of the business to identify significant risk areas for the audit. We performed walkthroughs of significant risk areas to determine whether controls were designed and implemented effectively. We also obtained business processes for areas that are significant to the financial statements to enhance our understanding of those areas.	No issues identified.	Green	Green
Planning and risk assessment	Accounting Estimates	To ensure our compliance with this revised auditing standard, we obtained an understanding and assessed the entity's internal controls over key 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.	No issues identified.	Green	Green

KEY:
RED Significant issue identified and/or response from management is significantly delayed
AMBER Issue identified and/or response from management is delayed
GREEN No issues noted and/or response from management has been received

Early Testing Audit Tracker (cont.)

Audit Area	Planned activity	Progress	Issues and actions	Findings	Audit progress
Risk assessment and planning	IT General Controls	As part of our risk assessment and planning we performed an update review of your IT General controls over the key IT systems which feed into the financial statements. This included a review of: - Oracle EBS (ERP system, Financial system) - RAM (Fixed Asset Register) - Active Directory (Windows domain authentication).	No issues identified.	Green	Green
Risk assessment and planning	Management Inquiries	We sent a list of planning inquiries to management and those charged with governance to inform our planning and risk assessment work, we have obtained responses from the MPS and MOPAC.	No issues identified to date.	Green	Green
Planning and risk assessment	Value for Money risk assessment and planning	We have requested a number of documents for our initial risk assessment and planning of value for money which covers financial sustainability, governance and improving economy, efficiency and effectiveness.	We received responses to our requests in a timely manner which has allowed us to identify the key areas of focus for our value for money work as outlined within the Audit Plan.	Green	Green
Early testing	Opening balances testing	We compared the opening trial balance to the prior year audited financial statements to gain assurance that the closing balances had been correctly rolled forward.	No issues identified.	Green	Green

KEY:
RED Significant issue identified and/or response from management is significantly delayed
AMBER Issue identified and/or response from management is delayed or outstanding
GREEN No issues noted and/or response from management has been received

Early Testing Audit Tracker (cont.)

Audit Area	Planned activity	Progress	Issues and actions	Findings	Audit progress
Early Testing	Property, Plant and Equipment Revaluations	We have reviewed the process and controls surrounding the valuation process for property, plant and equipment. We have also reviewed the high level assumptions made by the external valuer in determining the valuation of PPE assets. We have selected a sample of assets to test the detailed assumptions underpinning the valuation basis of revalued assets. We have engaged our external valuer to review the scope of work performed by your valuation expert as well as review the valuation report and assumptions underpinning the method of valuation of your revalued assets.	Our work is currently in progress in this area and is subject to receipt of outstanding evidence, no issues have been identified to date.	In progress	In progress
Early Testing	Other Revenues	We have performed substantive testing over months 1-10 other revenue transactions to gain assurance over the occurrence and accuracy of those transactions recorded in the financial ledger.	Our work is currently in progress in this area and is subject to receipt of outstanding evidence, no issues have been identified to date.	In progress	In progress
Early Testing	Operating Expenditure	We have performed substantive testing over months 1-10 accounts payable and non accounts payable expenditure transactions to gain assurance over the occurrence and accuracy of those transactions recorded in the financial ledger.	Our work is currently in progress in this area and is subject to receipt of outstanding evidence, no issues have been identified to date.	In progress	In progress

KEY:
RED Significant issue identified and/or response from management is significantly delayed
AMBER Issue identified and/or response from management is delayed or outstanding
GREEN No issues noted and/or response from management has been received

Early Testing Audit Tracker (cont.)

Audit Area	Planned activity	Progress	Issues and actions	Findings	Audit progress
Early Testing	Property, Plant and Equipment Additions	We have obtained a list of capital expenditure incurred in months 1-10 of the 2021/22 financial year. We have selected a sample of capital additions and are awaiting receipt of audit evidence to commence testing.	Our work is currently in progress in this area and is subject to receipt of outstanding evidence.	In progress	In progress
Early Testing	Pension Lump Sum Testing M1-10	We have obtained a list of pension lump sums paid in months 1-10 of the 2021/22 financial year. We have selected a sample of pension lump sums and are awaiting receipt of audit evidence to commence testing.	Our work is currently in progress in this area and is subject to receipt of outstanding evidence.	In progress	In progress
Early testing	Employee remuneration-starters and leavers testing	We obtained a list of starters and leavers for months 1-9 and selected a sample for each month to check the existence of starters and that they had been correctly included on the HR and payroll systems and that leavers had been correctly removed from the HR and payroll systems.	Our work is currently in progress in this area and is subject to receipt of responses to queries raised, no issues have been identified to date.	In progress	In progress

KEY:
RED Significant issue identified and/or response from management is significantly delayed
AMBER Issue identified and/or response from management is delayed or outstanding
GREEN No issues noted and/or response from management has been received

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

Home Office

Home Office

'Whole-system' approach to tackling violent crime is working

Violence Reduction Units and 'hotspot policing' initiatives prevented 49,000 violent offences across England and Wales, the government revealed, as it sets out an ambitious funding programme to build on efforts tackling serious violence.

Set up in 2019, Violence Reduction Units are a pioneering initiative established in 18 areas across England and Wales, bringing together local partners in policing, education, health, and local government, to share information in order to identify vulnerable children and adults at risk, helping steer them away from a life of crime and violence.

Figures published in an evaluation of these Violence Reduction Units' first 18 months of operation demonstrate the impacts they are having up and down the country, changing lives and reducing violent crime. Areas that have rolled out Violence Reduction Units and intensive police patrols in violence hotspots saw 8,000 fewer incidents of violence leading to injury and 41,000 fewer incidents without injury, compared with areas that didn't. This has resulted in an estimated £385 million avoided in associated costs for victims and society.

The government will inject £130 million in 2022/23 to further drive down the most devastating types of crime – including knife crime, gun crime and homicide. The funding package includes:

- an additional £64 million for Violence Reduction Units, supporting the existing 18 and enabling two new units to be established
- an additional £30 million into the 'Grip' police enforcement programme
- supporting the implementation of the new Serious Violence Duty and Serious Violence Reduction Orders, being brought into law via the Police, Crime, Sentencing and Courts Bill

The government has also confirmed that the now 20 Violence Reduction Units across England and Wales will have a guarantee of funding for the next three years. This will ensure they are given the time and resource to see their central mission of reducing the most serious types of violence come to fruition.

The full article can be found here.

HMICFRS

State of Policing: The Annual Assessment of Policing in England and Wales 2021

Her Majesty's Chief Inspector of Constabulary's report to the Secretary of State under section 54(4A) of the Police Act 1996 was published in March 2022.

It contains the assessment of the effectiveness and efficiency of policing in England and Wales based on the inspections carried out between April and November 2021.

This report draws on findings from inspections of police forces in England and Wales, to provide an overall view of the state of policing.

Get the report here.

Emergency consultation on 2021/22 reporting requirements – CIPFA

On 4 February CIPFA released an emergency four week consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. This explored two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

The decision to launch the consultation came after the Department for Levelling up, Housing and Communities (DLUHC) asked CIPFA to consider amendments to the Code of Practice on Local Authority Accounting, after just 9% of local audits for 2020-21 were published on time.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

1) An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation

2) Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

CIPFA Chief Executive Rob Whiteman said: “DLUHC is understandably concerned about this growing crisis – and CIPFA shares this concern. We are committed to supporting CIPFA LASAAC in its exploration of the options that may improve timeliness issues, without significantly impacting accountability. But this is a difficult issue, and we need feedback from stakeholders on whether and how this might work.”

CIPFA said that the changes do not represent the best form of financial reporting for local authorities, but are a “temporary expedient to help improve an unacceptable situation”.

The consultation closed on Thursday 3 March and subsequent to the consultation, FRAB agreed with the deferral of IFRS 16 to 2024/25 but advised that the Code must also allow for early adoption from 1 April 2022 or 1 April 2023.

Summary of the Grant Thornton response

Property, Plant & Equipment Valuations

In principle we are very supportive of changes to the measurement basis for operational property, plant and equipment. However our view is that it is too late to effect change for the 2021/22 reporting cycle. Our response highlighted a number of difficulties with this approach, including the risk that some assets then fall outside of the requirement to be revalued every five years as a minimum, and the challenge of consistent application of indexation. The proposed amendments to the Code do not appear to override the requirement that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period, which stems from IAS 16:31. If the financial reporting requirements are not sufficiently tightly defined and auditors therefore cannot obtain sufficient and appropriate audit evidence to support this requirement, there is a risk that audit opinions could be modified as a result.

Deferral of IFRS 16 - Leases

The removal of the requirement for disclosure (based upon IAS 8) in 2021/22 is not likely to have a significant impact in terms of freeing up auditor time and audit work covering the disclosures in 2022/23 would then be required in the 2022/23 audit. Savings to preparer time and effort would depend on what progress has already been made in preparing for the imminent implementation of IFRS 16.

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented "These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds."

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority's functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

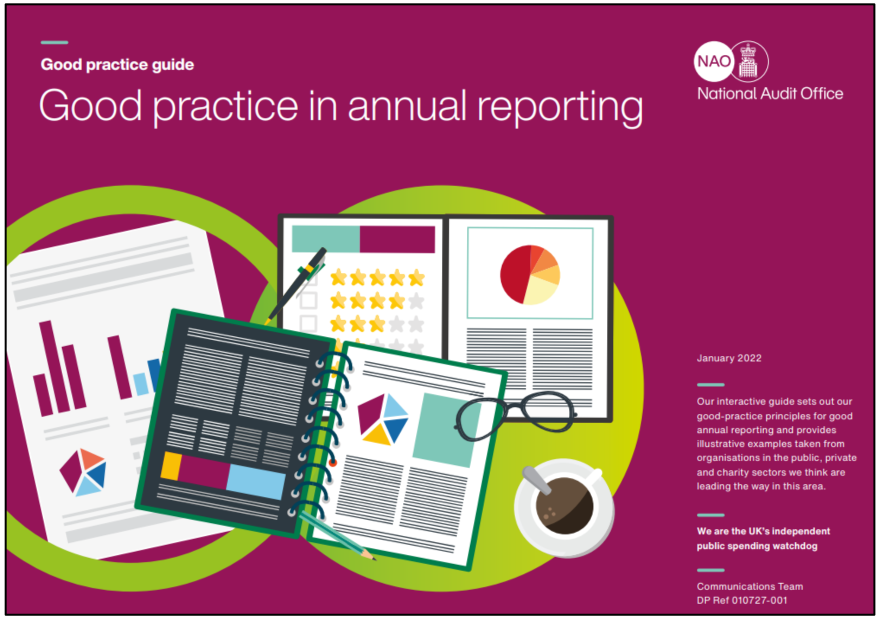
The NAO comment that the guide sets out "good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable."

The NAO further comment "The best annual reports we have seen use these principles to tell the "story" of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation's strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers' money that has been spent to deliver the outcomes the organisation seeks to achieve."

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:
[Good practice in annual reporting - National Audit Office (NAO) Report]

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