

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

Year ended 31 March 2013

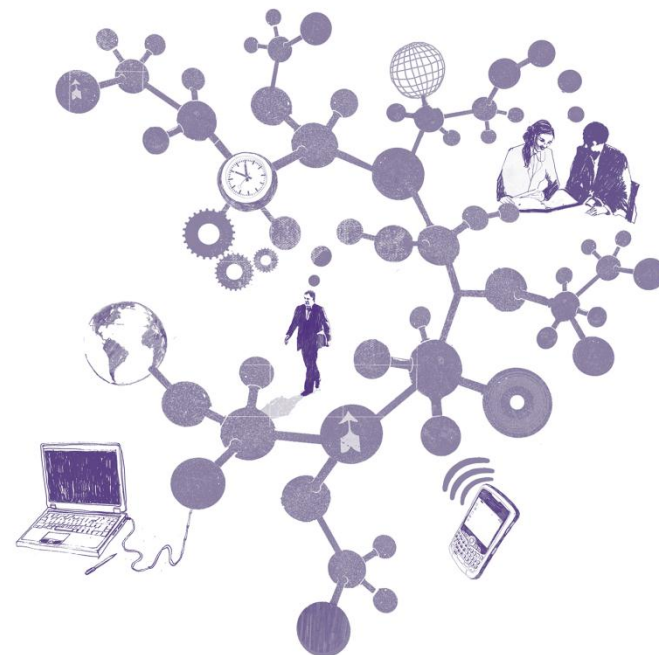
27 September 2013

Paul Grady
Engagement Lead
T 020 7728 2681
E paul.d.grady@uk.gt.com

Tom Edgell
Manager
T 020 7728 3188
E thomas.edgell@uk.gt.com

Richard Smith
Manager
T 01293 554 101
E richard.c.smith@uk.gt.com

Richard Hewes
Executive
T 020 7728 3250
E richard.hewes@uk.gt.com



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Value for Money	33
4. Fees, non-audit services and independence	44
5. Communication of audit matters	46

Appendices

- A Action plan of agreed recommendations – MOPAC
- B Action plan of agreed recommendations – CPM
- C MOPAC draft auditor's report
- D CPM draft auditor's report
- E Overview of audit findings

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

As the external auditor appointed to both the Mayor's Office for Policing and Crime (MOPAC) and the Commissioner of Police of the Metropolis (CPM), we are required by the Audit Commission's Code of Audit Practice to report our audit findings to 'Those Charged With Governance' at both organisations. The individuals charged with governance are:

- for MOPAC, the Deputy Mayor for Policing and Crime (DMPC); and
- for the CPM, the Commissioner of the Metropolitan Police Service (MPS).

This document, our Audit Findings Report, summarises the key findings and recommendations from our audits of both MOPAC's and the CPM's financial statements.

We report whether, in our opinion, MOPAC's and the CPM's financial statements for the year ended 31 March 2013 present a true and fair view of the financial position, their expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We issue separate audit opinions on the financial statements of both organisations.

We also report whether MOPAC and the CPM have put in place proper arrangements to secure economy, efficiency and effectiveness in their respective use of resources for the year ended 31 March 2013. This is referred to as the Value for Money conclusion. We issue separate conclusions for MOPAC and the CPM based on our assessment of the arrangements each has established.

Key messages – Mayor's Office for Policing and Crime Financial statements opinion

We expect to issue an unqualified opinion on MOPAC's financial statements, including the group accounting statements which consolidate the financial activities of the CPM, by 30 September 2013.

We received draft financial statements and accompanying working papers at the start of our audit in accordance with the agreed timetable. MOPAC's group financial statements reported total gross expenditure of £3,806 million, which includes £3,743 million expenditure on policing services provided by the CPM, £3 million community safety and crime prevention grants, £10 million expended directly by MOPAC, and £27 million in respect of asset impairments.

We identified no adjustments during our audit that affected the reported financial performance for the year of MOPAC or the CPM. We did identify a number of presentational amendments, details of which are included in section 2 of this report. There were no unadjusted misstatements.

As further clarity has emerged over the course of the year in relation to accounting for pensions and other costs, officers have re-evaluated the accounting treatment that was initially adopted in 2011/12. Pension costs and liabilities are now accounted for within the CPM's balance sheet, as they are accrued in respect of staff under the direction and control of the CPM. This liability is offset by a long term intra-group debtor to reflect MOPAC's funding obligation.

We worked closely with officers to agree a number of other adjustments relating to reclassifications, disclosure and narratives text changes in both MOPAC and the CPM's financial statements. Further details of our audit findings are in section 2 of this report.

Value for money conclusion

Based on our review of MOPAC's arrangements to secure economy, efficiency and effectiveness in its use of resources, we expect to issue an unqualified Value for money conclusion on the same date as our opinion on the financial statements. Further details of the findings and recommendations from the work supporting our Value for money conclusion in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Executive summary

Key messages – Commissioner of Police of the Metropolis **Financial statements opinion**

We expect to issue an unqualified opinion on the CPM's financial statements by 30 September 2013. We received draft financial statements and accompanying working papers at the start of our audit in accordance with the agreed timetable. The CPM's draft financial statements reported gross expenditure of £3,743 million, offset in full by MOPAC funding. We identified no adjustments during our audit that affected the reported financial performance of the CPM for the year. We did, however, identify a number of presentational amendments, details of which are included in section 2 of this report. There were no unadjusted misstatements.

Value for money conclusion

Based on our review of the CPM's arrangements to secure economy, efficiency and effectiveness in their use of resources, we expect to issue an unqualified Value for money conclusion on the same date as our opinion on the financial statements. Further details of the findings and recommendations from the work supporting our Value for money conclusion are in section 3 of this report.

Internal control – MOPAC and the CPM

MOPAC and the CPM are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. Throughout 2012/13, MOPAC and the CPM have operated a common set of financial systems and controls to produce both sets of financial statements. Our work on material financial systems used to prepare the financial statements has therefore supported our audits of both MOPAC and the CPM.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However where, as part of our testing, we identify any control weaknesses, we report these to you.

Our work has not identified any control weaknesses which we consider would lead to a material error in the financial statements going undetected. In section 2 of this report we have reported in more detail on areas where we consider that controls could nevertheless be strengthened.

The way forward

The findings and recommendations contained in this report have been discussed and agreed with the MOPAC Chief Operating Officer, the MOPAC Head of Strategic Finance and Resource Management and the MPS Temporary Director of Resources. We also shared the report with the Deputy Mayor for Policing and Crime and the MPS Commissioner, as the two individuals charged with overall governance for MOPAC and the CPM respectively, before they approved the accounts for their respective organisations.

We have made seven recommendations in this report. We have summarised these in action plans for each organisation, along with details of timescales and the officers responsible for implementing these as agreed by management. Appendix A contains recommendations arising from our MOPAC audit and Appendix B for our audit of the CPM.

Acknowledgment

We would like to thank MOPAC and MPS management and finance staff for their assistance over the course of this year's audits. The audits and accounts process presented a number of challenges in responding to emerging accounting guidance and we are pleased to acknowledge the collaborative way in which officers responded.

Grant Thornton UK LLP
27 September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

Audit of the financial statements

In this section of the report we present our findings from our audit of MOPAC's and the CPM's financial statements, including our conclusions in respect of the significant audit risks (see page 9) and other audit risks (see pages 10 - 14). These risks were originally reported to the Deputy Mayor for Policing and Crime and the MPS Commissioner in our Audit Plan in March 2013. This plan was shared with the Audit Panel on 25 March 2013. We have summarised our audit findings against each entry in the financial statements in more detail at Appendix E. We have not made any changes to the audit strategy contained within our Audit Plan.

Audit opinion

We expect to issue an unqualified opinion on both MOPAC's financial statements, including the group accounting statements which consolidate the financial activities of the CPM, and the CPM's financial statements, including the police officer pension fund accounting statements, by 30 September 2013.

Accounting changes arising from the Police Reform and Social Responsibility Act 2011

This has been a challenging year for police finance teams nationally, who have needed to invest considerable time and effort preparing separate financial statements for their local Police and Crime Commissioner (PCC) and Chief Constable under the Police Reform and Social Responsibility Act 2011 for the first time.

As the first police area to adopt the new arrangements in January 2012, MOPAC and the CPM produced their first set of separate financial statements in 2011/12, at the time with limited detailed accounting guidance available. This established an accounting model which, for the most part, has continued to provide an appropriate basis for preparation of the 2012/13 accounts, and which has informed the national

debate on police accounting this year as the other 42 English and Welsh police areas have adopted the new PCC arrangements. We recognise finance officers have continued to work hard in response to the accounting implications of the 2011 Act and in developing national thinking, and have engaged constructively with our audit team on emerging issues.

Looking ahead, MOPAC and the CPM, along with all other police areas, agreed and submitted their Stage 2 plans to the Home Office during September 2013. These set out their proposals for transfers of staff, supplier contracts and, where appropriate, assets due to take effect by April 2014. We will continue to work with finance officers to review the accounting impact, if any, of substantive and structural changes arising from the implementation of the Stage 2 plan.

Pages 15 – 24 of this report set out our audit findings in respect of the accounting principles adopted in the preparation of the financial statements for both MOPAC and the CPM in more detail.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in our Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Relevant to MOPAC/ CPM/ Both	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	Both	<p>MOPAC and CPM audits</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual, significant transactions. 	<p>MOPAC audit results</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>CPM audit results</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management override of controls</p>	Both	<p>MOPAC and CPM audits</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual, significant transactions. 	<p>MOPAC audit results</p> <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p> <p>CPM audit results</p> <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan, in addition to the general testing we perform across all of the financial statements entries and disclosures. Recommendations, together with management responses, are attached at Appendix A for MOPAC and at Appendix B for the CPM.

Transaction cycle	Relevant to MOPAC/ CPM/ Both	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Both</p>	<p>Operating expenses understated or not recorded in the correct period</p>	<p>MOPAC and CPM audits</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documentation of our understanding of processes over the operating expenses transaction cycle and walkthrough testing of key controls to assess whether these are designed effectively. • Review and reperformance of Directorate of Audit, Risk and Assurance internal audit testing on accounts payable controls. • Substantive testing of 25 operating expenses for the year to confirm existence, accuracy and classification of expenditure. • Review of expenditure allocated to the MOPAC. • Testing of payments made after the year end to determine whether they were recorded in the correct period. 	<p>MOPAC audit results</p> <p>An extra disclosure has been made in note 3 to explain the process for allocating and recognising expenditure in MOPAC's accounts.</p> <p>Our audit work has not identified any other significant issues in relation to the risk identified.</p> <p>CPM audit results</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks (continued)

Transaction cycle	Relevant to MOPAC/ CPM/ Both	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p>	<p>Both</p>	<p>Employee remuneration accrual understated or expenses not correct</p>	<p>MOPAC and CPM audits</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documentation of our understanding of processes over the employee remuneration transaction cycle and walkthrough testing of key controls to assess whether these are designed effectively. • Review and reperformance of Directorate of Audit, Risk and Assurance internal audit testing on payroll controls. • Substantive testing of 25 police officer's remuneration and of police staff's remuneration for the year to confirm existence, accuracy and classification of payroll expenditure. • Substantive testing of 10 police officer overtime payments for the year to confirm existence, accuracy and classification of expenditure. 	<p>MOPAC audit results</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>CPM audit results</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We changed our approach to testing overtime payments during the audit, from placing reliance on the overtime records held in the CARM rostering system to requesting confirmation on the validity and accuracy of ten overtime payments. We have not been able to place reliance on overtime authorisation controls in the CARM system because these are highlighted as an area for improvement in DARA's draft report on the CARM system. This report remained subject to agreement with MPS management at the date we were finalising our audit. We have instead obtained satisfactory confirmations from authorising officers for 10 out of 10 payments sampled so have gained satisfactory assurance in this area.</p>

Audit findings against other risks

Transaction cycle	Relevant to MOPAC/ CPM/ Both	Description of risk	Work completed	Assurance gained & issues arising
<p>Property, plant & equipment (PPE)</p>	<p>MOPAC</p>	<p>PPE activity not valid or revaluation measurement not correct</p>	<p>MOPAC audit</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documentation of our understanding of processes over the property, plant and equipment transaction cycle and walkthrough testing of key controls to assess whether these are designed effectively. • Substantive testing of 25 PPE additions for the year to confirm existence, ownership and valuation of capital expenditure. • Substantive testing of 60 depreciation calculations for the year to confirm valuation of depreciation charges. • Review of property valuations conducted by MOPAC's appointed property valuers, GL Hearn and Deloitte Drivers Jonas. • Review of accounting for the revaluation of land and buildings. • Review of accounting treatment for the sale and redevelopment of the Hendon site. 	<p>MOPAC audit results</p> <p>Our work identified that an extra note was required to disclose future changes to the Hendon Peel Centre site as a 'non-adjusting post balance sheet event' following the MOPAC decision in May 2013 to approve the marketing for sale of 21ha of surplus land.</p> <p>Our audit work did not identify any other significant issues in relation to the work identified.</p> <p>These findings are subject to the satisfactory conclusion of testing 2 assets under construction.</p>

Audit findings against other risks


Transaction cycle	Relevant to MOPAC/ CPM/ Both	Description of risk	Work completed	Assurance gained & issues arising
Pension Contributions Receivable	CPM, as the police pension authority for London under the 2011 Police Reform Act.	Recorded contributions not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documentation of our understanding of processes over the pensions transaction cycle and walkthrough testing of key controls to assess whether these are designed effectively. • Substantive testing of 60 employer contributions and 60 employee contributions to confirm existence, accuracy and classification of contributions. 	<p>CPM audit results</p> <p>Our audit work did not identify any significant issues in relation to the work identified.</p>
Pensions Membership Data	CPM, as above.	Actuarial amounts not determined properly	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Review of the Price Waterhouse Coopers (PwC) assessment of the Police Pension Fund Actuary, Hymans Robertson. PwC review commissioned by the Audit Commission under the current framework contract arrangement. 	<p>CPM audit results</p> <p>Our audit work did not identify any significant issues in relation to the work identified.</p>
Pensions Membership Data	CPM, as above.	Member data not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Review of data provided to the actuary by the MPS Pensions Contract Management Team and by Xafinity Paymaster. 	<p>CPM audit results</p> <p>Our audit work did not identify any significant issues in relation to the work identified.</p>

Audit findings against other risks

Transaction cycle	Relevant to MOPAC/ CPM/ Both	Description of risk	Work completed	Assurance gained & issues arising
Pensions Membership Data	CPM, as above.	Regulatory, legal and scheme rules/requirements not met	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> Review of police officer pension scheme fund disclosures and agreed to paragraph 6.5.6.8 of the Code which sets out the disclosure requirements for the police officer pension fund. 	CPM audit results Our audit work did not identify any significant issues in relation to the work identified.
Pensions Benefits Payable	CPM, as above.	Benefits improperly computed/ Claims liability understated	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> Substantive testing of 60 payments to pensioners to confirm valuation of benefits paid for the year. Substantive testing of 60 lump sum payments to new pensioners to confirm valuation of lump sum payments for the year. 	CPM audit results Our audit work did not identify any significant issues in relation to the work identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of the accounting policies adopted in the preparation of the financial statements, in particular revenue recognition policies, and key estimates and judgements made and included within the financial statements for both organisations.

Accounting area	Relevant to MOPAC/ CPM/ Both	Summary of policy	Comments	Assessment
<p>Impact of the Police Reform and Social Responsibility Act 2011: preparation of separate financial statements for MOPAC and the CPM</p>	<p>Both</p>	<p>The financial statements for MOPAC and the CPM set out the accounting policies adopted following the establishment of MOPAC and the CPM as separate corporations sole on 16 January 2012:</p> <ul style="list-style-type: none"> MOPAC has a statutory obligation to maintain the Police Fund for London, recognises all income for policing services in London in the first instance, and holds all related cash, investments and borrowing and financial reserves. MOPAC has overall control of all police property, plant and equipment assets through its strategic asset management decision-making, including approval of the joint estates strategy, annual capital programme and individual significant capital expenditure and disposals. MOPAC therefore accounts for all police property, plant and equipment assets. The CPM recognises costs relating to the day-to-day policing activities delivered by the MPS, including all costs relating to police officers and staff under the direction and control of the MPS Commissioner. Costs recognised in the CPM financial statements are matched by funding from MOPAC in line with the annual budget set by MOPAC. <p><i>continued.....</i></p>	<p>Overall conclusion</p> <p>The accounting policies, estimates and judgements made by MOPAC and the CPM are appropriate and in line with accounting guidance that has emerged over the past year.</p> <p>In responding to the updated guidance management has recognised the pension liability and provision for accumulated absences in respect of police officers and staff on the CPM balance sheet, offset by funding from MOPAC. Also, some narrative disclosures in both financial statements have been expanded to explain the accounting treatments adopted more clearly.</p> <p>We are satisfied the accounting policies adopted by MOPAC and the CPM in relation to the preparation of separate financial statements are reasonable and reflect each body's statutory responsibilities, extant accounting guidance and local agreements established between the two entities.</p> <p>Developments in the accounting framework in 2012/13</p> <p>As the first police area to adopt the new Police and Crime Commissioner arrangements in January 2012, MOPAC and the CPM produced their first set of separate financial statements in 2011/12 when minimal accounting guidance was available. Officers have kept the accounting model developed in 2011/12 under close review this year, in light of accounting guidance issued by CIPFA in March 2013, and developing thinking among police accounting practitioners and auditors.</p> <p>In most areas the accounting model developed in 2011/12 has remained appropriate and in line with accounting guidance issued for 2012/13.</p>	<p style="text-align: center;">  Green </p>

Assessment

- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Green** - Accounting policy appropriate and disclosures sufficient

- **Amber** – Accounting policy appropriate but scope for improved disclosure.


Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to MOPAC/ CPM/ Both	Summary of policy	Comments	Assessment
<p>Impact of the Police Reform and Social Responsibility Act 2011: preparation of separate financial statements for MOPAC and the CPM</p>	<p>Both</p>	<ul style="list-style-type: none"> The CPM balance sheet reflects employee benefit liabilities not settled at 31 March 2013, as required by IAS19 (Employee Benefits). These liabilities relate to the liability to pay pensions to police officers in the future based on their pensionable service in years up to and including 2012/13, and to accumulated absences such as annual leave due to employees but not taken at the reporting date. These liabilities under IAS19 are offset by corresponding debtor balances with MOPAC, reflecting the intention that MOPAC will continue to provide funding to meet police pension obligations as they fall due on the Police Officer Pension Fund. 	<p>There are two exceptions to this which have resulted in accounting policy changes in 2012/13 to:</p> <ul style="list-style-type: none"> recognise employee benefit liabilities on the CPM balance sheet in line with IAS19, offset by a long-term debtor with MOPAC. These liabilities relate to police officer pensions and police officer and staff accumulated absences. The latter was originally recognised on MOPAC's balance sheet in the draft financial statements. Management has subsequently amended this to recognise the liability on the CPM balance sheet in the same way as other IAS 19 liabilities. This is included in the table of amendments on pages 25 (MOPAC) and 26 (CPM). recognise service-specific income from MOPAC against service expenditure headers in the CPM Comprehensive I&E Statement in line with the CIPFA Service Reporting Code of Practice. Previously this funding was recognised as a single intra-group transfer. <p>Management has disclosed these accounting policy changes in MOPAC's and the CPM's financial statements. Management has made a prior period adjustment to both balance sheets to reflect the impact on the previous year's balance sheet of the change relating to employee benefit liabilities. This prior period adjustment is required for accounting policy changes by IAS8 (Accounting Policies, Changes in Accounting Estimates and Errors).</p> <p>Scheme of Delegation and Financial Regulations</p> <p>MOPAC's Scheme of Delegation and the joint MOPAC/CPM financial regulations together set out the financial roles and responsibilities of MOPAC and the CPM and the extent of delegation of financial authorities from the DMPC to MOPAC and MPS officers.</p> <p>An approved Scheme of Delegation has been in place throughout 2012/13. This was recently updated and re-approved by the DMPC on 1 August 2013.</p>	<p style="text-align: center;">● Green</p>

Assessment

- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Amber** – Accounting policy appropriate but scope for improved disclosure.
- **Green** - Accounting policy appropriate and disclosures sufficient


Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to MOPAC/ CPM/ Both	Summary of policy	Comments	Assessment
<p>Impact of the Police Reform and Social Responsibility Act 2011: preparation of separate financial statements for MOPAC and the CPM</p>	<p>Both</p>		<p>The joint financial regulations were scrutinised by the joint Audit Panel in September 2012 but have remained in draft throughout 2012/13 and up to the date of this report. We recognise that developments in MOPAC and MPS governance arrangements have required changes in the joint financial regulations which has delayed ultimate approval by the DMPC. The absence of approved financial regulations increases the risk financial responsibilities are not understood properly or adhered to by officers. It is important the joint financial regulations are updated, agreed and formally approved as soon as practicable to mitigate this risk.</p> <p>In the absence of approved financial regulations we have asked MOPAC and MPS management provide written assurances in their respective letters of representation that they have notified us of all instances of material non-compliance with the draft financial regulations in place during 2012/13.</p> <p>Recommendation for MOPAC and the CPM (R1): Update, agree and formally approve the joint financial regulations which underpin the preparation of the financial statements and set out the financial responsibilities of MOPAC and the CPM as soon as practicable.</p>	<p style="text-align: center;">  Green </p>

Assessment

- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Green** - Accounting policy appropriate and disclosures sufficient
- **Amber** – Accounting policy appropriate but scope for improved disclosure.

Accounting policies, estimates & judgements (continued)


Accounting area	Relevant to MOPAC/ CPM Both	Summary of policy	Comments	Assessment
Revenue recognition	Both	<p>MOPAC policy</p> <p>MOPAC has two principal revenue streams:</p> <ul style="list-style-type: none"> grant income is recognised in accordance with the terms of the grant, whether specific or non-specific; and income from fees/charges in the provision of services, which is recognised when the service has been provided or when title to goods has passed. <p>All income is accounted for by MOPAC and paid into the Police Fund.</p> <p>CPM policy</p> <p>The CPM is entirely funded by MOPAC. Income is recognised in the CPM Accounts, to reflect the simultaneous funding by MOPAC, of the financial resources consumed by the CPM.</p> <p>The CPM financial statements therefore do not contain debtors or liabilities other than those relating to the long term actuarial liabilities required by IAS 19, as MOPAC provides funding to meet those liabilities as they fall due.</p>	<p>MOPAC audit</p> <p>The revenue recognition policies are appropriate and in accordance with the CIPFA Code and Financial Management Code issued by the Home Office.</p> <p>CPM audit</p> <p>The revenue recognition policy is appropriate.</p> <p>CIPFA issued guidance to accounting practitioners in December 2012 and March 2013 which identified the incidence of employee costs in either set of accounts would influence the recognition of related pensions obligations. For 2012/13, the CPM has recognised pension costs and liabilities relating to police officers in its accounts in full in line with IAS19 (Employee Benefits), as they are accrued in respect of police officers under the direction and control of the CPM. This liability is offset by a long term intra-group debtor to reflect MOPAC's funding obligation.</p>	<p style="text-align: center;">  Green </p>

Assessment

● **Red** - Marginal accounting policy which could potentially attract attention from regulators
 ● **Green** - Accounting policy appropriate and disclosures sufficient

● **Amber** – Accounting policy appropriate but scope for improved disclosure.

Accounting policies, estimates & judgements (continued)


Accounting area	Relevant to MOPAC/ CPM Both	Summary of policy	Comments	Assessment
<p>Cost recognition</p>	<p>Both</p>	<p>MOPAC policy</p> <ul style="list-style-type: none"> • Expenditure is recognised on an accruals basis . • MOPAC expenditure includes the cost of policing provided by the CPM, this cost is recognised as intra-group funding. • The cost of MPS support services are apportioned to services in full in line with the CIPFA Service Reporting Code of Practice (SeRCoP) 2012/13. These costs are charged to relevant policing services in the CPM CIES in the first instance and are then reflected in the MOPAC CIES under 'Intra-group funding – policing' . • Treasury management costs and other elements of property related costs, market value impairments and revaluations and are not apportioned to the CPM as they have no bearing on the cost of policing. <p>CPM policy</p> <ul style="list-style-type: none"> • Expenditure is recognised on an accruals basis in the CPM financial statements. • As noted above, this includes the cost of MPS support services, including finance, property, IT and legal services, which are apportioned to services in line with the CIPFA Service Reporting Code of Practice (SeRCoP) 2012/13. 	<p>MOPAC audit</p> <p>We are satisfied that expenditure recognition policies are appropriate and result in materially accurate recognition of costs in MOPAC's financial statements and those of the group.</p> <p>However, the cost of support services provided by the MPS to MOPAC are not recognised as support costs in MOPAC's accounts. For example, property service costs supporting the development and delivery of the capital programme on behalf of MOPAC are not recognised in MOPAC's accounts. Management has taken the view in accordance with SeRCoP that these costs should be allocated in full to CPM services in the first instance as the body providing policing services on behalf of MOPAC.</p> <p>We are satisfied the value of such support costs overall is not material to either set of financial statements. Management has agreed to add further narrative disclosure to both financial statements to clarify the accounting treatment adopted in respect of support service costs.</p> <p>CPM audit</p> <p>We are satisfied that expenditure recognition policies are appropriate and result in materially accurate recognition of costs in the CPM financial statements.</p> <p>Recommendation for MOPAC and the CPM (R2): Develop an approach to quantify the cost of support services which the MPS provides directly to MOPAC to support future decision-making on how support services are most efficiently delivered.</p>	<p style="text-align: center;">  Green </p>

Assessment

- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Green** - Accounting policy appropriate and disclosures sufficient

- **Amber** – Accounting policy appropriate but scope for improved disclosure.


Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to MOPAC/ CPM Both	Summary of policy	Comments	Assessment
Severance payments	Both	<p>In response to the previous auditor's 2011/12 recommendation, MOPAC and the CPM have developed separate but complementary procedures for agreeing and approving severance payments made outside normal contractual entitlement. At the date of this report, MOPAC's procedure remained subject to final approval by the DMPC, although the principles set out in the draft policy have been adhered to during 2012/13.</p>	<p>We are satisfied that severance payments have been accounted for and properly disclosed in both MOPAC's and the CPM's financial statements. MOPAC and the CPM have strengthened internal procedures for making severance decisions in respect of senior individuals and adhered to these throughout 2012/13. Our testing of twelve severance decisions made in 2012/13 confirmed these were made in line with MOPAC/ MPS procedures and in each instance supported by an appropriate business case. We include some points in recommendation (R3) below to help further strengthen internal procedures.</p> <p>Audit testing</p> <p>Our sample testing of thirteen severance decisions made during 2012/13 comprised:</p> <ul style="list-style-type: none"> • three senior MOPAC directors and two senior MPS directors; • five MPS employees who departed through voluntary exit programmes offered to police staff in 2012/13; and • three employees who had been on supported placements in the MPS on non-standard employment contracts who departed the MPS under the same voluntary exit terms available to other police staff working in the same MPS departments. <p>We have set out our findings for each below.</p> <p>Senior MOPAC/ MPS directors</p> <p>For each of the five individuals tested, management provided details of the proposed payments in advance of making these, which is good practice. Our testing of each proposal confirmed MOPAC and the MPS had adhered to the new procedure for agreeing and approving severance payments with an increasingly strong evidence base provided to support payments proposed throughout the year. In each instance the proposal was supported by an appropriate case setting out why management considered the payment represented the best value for money option whilst minimising the risk of future challenge.</p> <p>Of the five senior departure packages we reviewed, three (1 MOPAC, 2 CPM) were ex-gratia payments, but they were in line with the payments that would have been made had the departures been through a formal redundancy process. Whilst there will always remain unforeseeable circumstances where ex-gratia payments are an appropriate route to manage a departure, management should continue to minimise their use and</p>	<p style="text-align: center;"> Green</p>

Assessment

- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Green** - Accounting policy appropriate and disclosures sufficient
- **Amber** – Accounting policy appropriate but scope for improved disclosure.


Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to MOPAC/ CPM Both	Summary of policy	Comments	Assessment
Severance payments	Both	(continued from previous page)	<p>instead manage departures from the organisation through normal arrangements. Where ex-gratia payments are made due to an identified deficiency with existing normal arrangements, such arrangements should be reviewed and updated to enhance their fitness for purpose.</p> <p>Voluntary exit departures</p> <p>These payments were made to police staff departing the MPS through voluntary exit terms during 2012/13. Voluntary exit programmes are being run in the MPS to reduce staff numbers to deliver long-term financial savings expected to total £128 million by 2015/16. Our testing found they were correctly calculated and adequately supported. However, there was insufficient evidence supporting the decision to award pay in lieu of notice totalling £26k to two of the five individuals tested to clearly demonstrate that pay in lieu of notice had been the most appropriate available option in these instances.</p> <p>Supported placements</p> <p>Management provided details of the proposed payments in advance of making these, which is good practice. The payments were to three individuals on supported placements in the MPS on schemes run in conjunction with charitable organisations enabling people with learning difficulties to work with appropriate support arrangements provided by the charities. These staff were on non-standard contracts that did not specify what exit terms were available to them. The placements were not time-limited. The MPS offered this group of staff the same voluntary exit terms as were available to other police staff working in the same areas of the business, to support the delivery of long-term efficiency savings. This also ensured these individuals were given the same opportunity to take up terms available to all other police staff working in the same areas of the business.</p> <p>We found the proposal to offer voluntary exit terms to the three individuals was supported by an appropriate business case. The total cost was not excessively high, totalling £74k , but because it was not clear that the employment contracts for these employees entitled them to such payments we have recommended that voluntary exit terms for staff on non-standard contracts should be clarified, to minimise the need for ex-gratia payments and clarify entitlement for employees on such contracts.</p>	 Green

Assessment

- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Green** - Accounting policy appropriate and disclosures sufficient
- **Amber** – Accounting policy appropriate but scope for improved disclosure.


Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to MOPAC/ CPM Both	Summary of policy	Comments	Assessment
Severance payments	Both	(continued from previous page)	<p>Recommendation for MOPAC and the CPM (R3):</p> <p>(a) Update and approve the draft procedure for agreeing and approving severance payments to include the following:</p> <ul style="list-style-type: none"> • an overall statement that ex-gratia payments should only be used as an option of last resort where there is a clear case in value for money terms • the expectation that pay in lieu of notice (PILON) should only be awarded if it is demonstrable that it is untenable to expect the individual to work their notice, and to make it clear that the normal expectation is that paid notice periods are worked by the individual in question • the expectation that any accrued time off in lieu (TOIL) or annual leave should be taken during the notice period unless there is a clear business need for the individual to work their full notice period. Where PILON is proposed, all such accrued TOIL and annual leave should be taken as part of the notice period. • the minimum record-keeping requirements expected to support proposed payments, in particular that notes of discussions held with the individual and/or their legal advisor should be documented as part of the evidence base supporting option appraisal. The reasons for an award of PILON should also be fully documented. • the circumstances, if any, under which MOPAC will meet the individual's legal costs, including a proposed cap on the amount of costs that will be met <p>(b) Where ex-gratia payments are made due to an identified deficiency with existing normal arrangements, such arrangements should be reviewed and updated to enhance their fitness for purpose and minimise the need for ex-gratia payments to be needed in the future.</p> <p>(c) Clarify the voluntary exit terms available to staff on non-standard employment contracts to minimise the need for ex-gratia payments.</p>	 Green

Assessment

- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Amber** – Accounting policy appropriate but scope for improved disclosure.
- **Green** - Accounting policy appropriate and disclosures sufficient



Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to MOPAC/ CPM Both	Summary of policy	Comments	Assessment
<p>Contingent liability for Riot Damages Act claims</p>	<p>MOPAC</p>	<p>As set out in Note 35 to the accounts, MOPAC has recognised a contingent liability in respect of claims made under the Riot Damages Act following the disturbances in London in August 2011. MOPAC has recognised a contingent liability for these claims on the basis of legal advice received that it is unlikely the claims will be upheld.</p>	<p>We have reviewed the basis for recognising a contingent liability, and the related legal advice received by MOPAC. Based on the information provided to us at the date of our audit we do not intend to challenge the treatment as contingent liabilities.</p> <p>However we note the High Court delivered its judgement on claims made in respect of damage to the Sony Warehouse in Enfield during the August 2011 disturbances and consequential losses incurred as a result of this damage. The judge's verdict is that damage to property is covered under the Riot Damages Act in this scenario, but inconsequential losses are not. The judge has granted MOPAC the right to appeal the decision and MOPAC is currently reviewing whether to exercise this. Pending the outcome of any appeal process, a second trial would need to be held to establish the quantum of any costs payable by MOPAC.</p> <p>We have reviewed management's assessment of the judge's decision and, subject to additional disclosure of this as a post-balance sheet event, which management has included in MOPAC's accounts, are satisfied the accounting treatment adopted at 31 March 2013 remains appropriate.</p>	<p style="text-align: center;">  Green </p>

Assessment

- **Red** - Marginal accounting policy which could potentially attract attention from regulators
- **Green** - Accounting policy appropriate and disclosures sufficient
- **Amber** – Accounting policy appropriate but scope for improved disclosure.

Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to MOPAC/ CPM/ Both	Summary of policy	Comments	Assessment
Judgements and estimates	Both	<p>Key estimates and judgements impact jointly on a number of areas of MOPAC's and the CPM's financial statements</p> <ul style="list-style-type: none"> – useful life of capital equipment , revaluations and impairments impacts on the MOPAC Balance sheet , the charge for usage of assets to the CPM and impairments not charged to the CPM but reflected in MOPAC – pension fund valuations and settlements, impacts on the IAS 19 liability and recognised in – Provisions, where the revenue cost falls on the CPM and the liability is recorded in MOPAC balance sheet. In the case of Riot Damages Act, the revenue cost is recorded in MOPAC. 	<p>MOPAC and CPM audits</p> <p>The critical areas of judgement applied in compiling the financial statements have been explained in the statement of accounts.</p> <p>MOPAC is advised by external experts in relation to property and pension fund valuations. We have reviewed the work of experts and are satisfied the experts used are independent, appropriately skilled and have carried out their work in accordance with professional practices.</p> <p>Where estimates and judgements have been applied by officers we are satisfied that they are free from bias.</p>	 Green
Other accounting policies	Both	<p>MOPAC and CPM policies</p> <ul style="list-style-type: none"> • We have reviewed MOPAC's and the CPM's policies against the requirements of the CIPFA Code and accounting standards. 	<p>MOPAC audit</p> <p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p> <p>CPM audit</p> <p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	 Green

Assessment

 **Red** – Marginal accounting policy which could potentially attract attention from regulators

 **Green** – Accounting policy appropriate and disclosures sufficient

 **Amber** – Accounting policy appropriate but scope for improved disclosure

Adjustments – MOPAC and Group financial statements

Our audit identified a number of adjustments to MOPAC's draft financial statements. We are required to report all non-trivial misstatements to the DMPC, and report whether or not management has agreed to adjust the financial statements. The table below summarises the adjustments arising from the audit of MOPAC's financial statements which management has agreed to amend. Where adjustments to MOPAC's financial statements also affect the group accounting statements we have stated the impact on the group statements in the table. There were no unadjusted errors.

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £000
<p>1 This year's change in accounting policy for IAS19 liabilities means the police officer pension liability is initially recognised in the CPM balance sheet and offset by an intra-group debtor with MOPAC, leading to the liability being represented in MOPAC's single entity balance sheet. While the in year accounting entries were correct, this change from last year's treatment was not fully presented as a prior period adjustment, as required by IAS 8, in the draft financial statements.</p> <p>Management has amended the financial statements to include a restated balance sheet as at 1 April 2011, which is a requirement of IAS 8 when making prior period adjustments to show the impact of the prior period adjustment back to the start of the comparator period. The draft accounts disclosed this accounting policy change so otherwise complied with IAS 8 requirements. Whilst material in value, this amendment is presentational on the face of the balance sheet and does not affect the police officer pension liability reported at 31 March 2012 or 31 March 2013. 2013. There is no impact on the MOPAC group accounts as a result of this change.</p>	0	(at 1 April 2011) (£17,543,500) cr Police Officer Pension Liability £17,543,500 dr Police Officer Pension Reserve	0
<p>2 The accumulated absences provision was not initially included in the draft accounts of the CPM. Management agreed to amend this to be consistent with their accounting for the police pension liability. A long term debtor has been added to the CPM accounts and a long term creditor has been added to the MOPAC accounts to reflect the intention that MOPAC will fund the costs of the liability when they fall due. As this is a change in accounting policy, management has included the impact of this change as at 1 April 2011 in line with IAS 8 in the same way as with the police officer pension liability above.</p>	114,524 Dr MOPAC funding to CPM (114,524) Cr Accrued Absences expenditure	114,524 Dr Short Term Provision (114,524) Cr Intra-group transfer from MOPAC to CPM	
Overall impact	£0	£0	£0

Adjustments – CPM financial statements

Our audit identified a number of adjustments to the CPM's draft financial statements. We are required to report all misstatements to the MPS Commissioner, and report whether or not management has agreed to adjust the financial statements. The table below summarises the adjustments arising from the audit of the CPM's financial statements which management has agreed to amend. Where adjustments to the CPM financial statements also affect the group accounting statements we have stated the impact on the group statements in the table. There were no unadjusted errors.

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £000
<p>1 This year's change in accounting policy for IAS19 liabilities means the police officer pension liability is initially recognised in the CPM balance sheet and offset by an intra-group debtor with MOPAC, leading to the liability being represented in MOPAC's single entity balance sheet. While the in year accounting entries were correct, this change from last year's treatment was not fully presented as a prior period adjustment, as required by IAS 8, in the draft financial statements.</p> <p>Management has amended the financial statements to include a restated balance sheet as at 1 April 2011, which is a requirement of IAS 8 when making prior period adjustments to show the impact of the prior period adjustment back to the start of the comparator period. The draft accounts disclosed this accounting policy change so otherwise complied with IAS 8 requirements. Whilst material in value, this amendment is presentational on the face of the balance sheet and does not affect the police officer pension liability reported at 31 March 2012 or 31 March 2013. 2013. There is no impact on the MOPAC group accounts as a result of this change.</p>	0	(at 1 April 2011) £17,543,500 dr Police Officer Pension Intra-group debtor (£17,543,500) cr Police Officer Pension Liability	0
<p>2 The accumulated absences provision was not initially included in the draft accounts of the CPM. Management has agreed this should be consistent with the accounting for the police pension liability. A long term debtor has been added to the CPM accounts and a long term creditor has been added to the MOPAC accounts to reflect that MOPAC will fund the costs of the liability when they fall due. As this is a change in accounting policy, management has included the impact of this change as at 1 April 2011 in line with IAS 8 in the same way as with the police officer pension liability above.</p>	114,524 Dr Accrued Absences expenditure (114,524) Cr Funding from MOPAC	(£114,524) Cr Short Term Provision 114,524 Dr Intra-group transfer from MOPAC to CPM	0
Overall impact	£0	£0	£0

Misclassifications & disclosure changes – MOPAC financial statements

In the table below we set out details of misclassification and disclosure changes to MOPAC's financial statements, including the group consolidation, identified during the audit and which management have agreed to amend in the financial statements. Where adjustments to MOPAC's financial statements also affect the group accounting statements we have stated the impact on the group statements in the table. Should any additional changes arise from the completion of our residual work we will report these to you before issuing the audit opinion.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Explanatory foreword and accounting policies	Management has agreed to enhance some narrative disclosures in the foreword, accounting policies and notes relating to the accounting arrangements for the two corporations sole to explain the accounting principles adopted more clearly.
2 Disclosure	n/a	MOPAC CIES and MOPAC Group CIES	Comparatives not provided in full in MOPAC's CIES and the MOPAC Group CIES. Initially only provided for net service costs, rather than gross. Management agreed to make this amendment.
3 Misclassification	n/a	Police and police staff remuneration	Two staff members incorrectly included in the £265k - £270k banding who should have been included in the £310k - £315k banding.
4 Disclosure	n/a	Post-balance sheet events	<p>The future sale of the Hendon Peel Centre Training Facility was not disclosed in the MOPAC accounts. A 'non-adjusting post balance sheet event' disclosure was added to explain the future plans for the Hendon site and the current carrying value.</p> <p>Management has also updated the post-balance sheet events note in MOPAC's accounts to disclose the 12 September 2013 High Court judgement on claims made against MOPAC under the Riot Damages Act in respect of the Sony warehouse in Enfield and the impact of this judgement on the accounting treatment adopted in 2012/13.</p>
5 Misclassification	45,000	Short Term Borrowings	£45 million of borrowings incorrectly classified as being with the Public Works Loan Board. Borrowings actually with Local Authorities.
6 Disclosure	n/a	Provisions	Accumulated absences provision initially not included in CPM accounts. Following this amendment (as per Adjusted misstatements – CPM) further disclosure made in MOPAC statements to explain the process by which MOPAC agrees to meet the costs of the provision as they fall due on behalf of the CPM.

Misclassifications & disclosure changes – MOPAC financial statements (continued)

Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Misclassification	100,000	<p>Note 33, Adjustments between funding and accounting basis under statute</p> <p>Note 33 did not agree to the Movement in Reserves Statement, it did not contain the correct figures for reversal of police pension cost adjustments and actuarial gains and losses. To bring these items in line with corresponding balances in the MiRS, the following amendments were made:</p> <p>General Fund (in note 33) Other adjustments, Police Pensions: Adjusted by -£100,000k to -£1,026,700k Police Pension s: Adjusted by -£100,000k to -£2,313,400k</p> <p>Unusable Reserves (in note 33) Other adjustments, Police Pensions: Adjusted by £100,000k to £1,026,700k Police Pension s: Adjusted by £100,000k to £2,313,400k</p> <p>The total MOPAC reserves position remains unchanged. This error does not impact the MOPAC or MOPAC Group MiRS. The error was confined to note 33.</p>
8	Disclosure	various	<p>Note 33, Adjustments between funding and accounting basis under statute</p> <p>Police pensions adjustment line in note 33 shown as one total. This required splitting across three lines.</p> <p>Reversal of IAS 19 adjustments: -£1,592,800k Actual pension costs charged against the General Fund balance: £314,766k Reversal of Home Office Top Up Grant to Pension Reserve: £251,334k Total: £1,026,700k.</p>
9	Disclosure	0	<p>Note 37, Financial Instruments</p> <p>Fair values for financial assets not included in the draft accounts. Management agreed to add this information to the note.</p>


Misclassifications & disclosure changes – CPM financial statements

In the table below we set out details of misclassification and disclosure changes to the CPM's financial statements identified during the audit and which management have agreed to amend. Where adjustments to the CPM financial statements also affect the group accounting statements we have stated the impact on the group statements in the table. Should any additional changes arise from the completion of our residual work we will report these to you before issuing the audit opinion.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Explanatory foreword and accounting policies	Management has agreed to enhance some narrative disclosures in the foreword, accounting policies and notes relating to the accounting arrangements for the two corporations sole to explain the accounting principles adopted more clearly.
2 Disclosure	n/a	CIES	Comparatives not provided in full in the CIES. Initially only provided for net service costs, rather than gross. Management agreed to make this amendment.
3 Disclosure	+2,313,400 surplus on services - 2,313,400 non-cash adjs	Cash Flow Statement	Management has added the surplus on provision of services on the CIES as the first line of the Cash Flow Statement, adjusted back to nil by non-cash entries also added in the Statement. The change is purely presentational to reflect the CIPFA Code format of accounts. There is no impact on MOPAC's group accounts.
4 Misclassification	n/a	Movement in reserves statement	The CPM MIRS initially showed a movement between usable and unusable reserves. Because CPM does not have any unusable reserves, all movements should be in usable reserves. Management agreed to amend to show the adjustments going through usable reserves in the CPM MiRS.
5 Misclassification	n/a	Police and police staff remuneration	Two staff members incorrectly included in the £265k-£270k banding, and should have been included in the £310k - £315k banding.
6 Misclassification	n/a	CIES	Management have carried out validation checks on cost centre allocations, and have produced a revised cost analysis. There is no impact on costs overall and only relatively minor (up to £6 million) reclassifications across cost headings.


Internal controls

The purpose of our audit is to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A for MOPAC and at Appendix B for the CPM.


	Assessment	Relevant to MOPAC/ CPM/ Both	Issue and risk	Recommendations
1	 Amber	Both	<p>Annual opinion by the Director of Audit, Risk and Assurance</p> <p>We considered and, where appropriate, relied on the internal audit work by the Directorate of Audit, Risk and Assurance (DARA) during 2012/13. This included consideration of the Director of Audit, Risk and Assurance's annual opinion for 2012/13, which was that there had been no significant change in the effectiveness of MOPAC's and the MPS' internal control environments and that overall these control environments remain not yet fully effective.</p> <p>The key areas for improvement in governance arrangements highlighted by the Director's 2012/13 opinion include policy development, contract management, budgetary control and the development of MOPAC governance arrangements in line with Police and Crime Plan priorities. DARA did not identify significant weaknesses in the material financial systems supporting the production of the financial statements; these received at least an 'adequate' assurance rating where these were reviewed by DARA in 2012/13.</p> <p>We note DARA's 2012/13 follow-up reviews show a positive direction of travel (2 of 32 resulted in a limited assurance rating in 2012/13 compared with 15 limited and one no assurance rating of 38 normal risk-based reviews), and that 2012/13 has been a year of significant organisational change for MOPAC and the MPS, requiring changes in working practices and control arrangements. However, weaknesses in the control framework expose MOPAC and the MPS to financial and reputational risks, and the risk they are not systematically achieving value for money. It remains important the areas for improvement outlined in the DARA report are addressed. The Annual Governance Statements for MOPAC and the CPM set out the key actions planned to achieve this.</p>	<p>Recommendation for MOPAC and the CPM (R4): In conjunction with DARA, develop a detailed plan to address the the areas of weaknesses highlighted in the Director of Audit, Risk and Assurance's 2012/13 Annual Report. Allocate responsibility for delivery of the plan to appropriate senior officers and hold responsible officers to account for delivery.</p>

Assessment

 **Red** – Significant deficiency – risk of material misstatement


 **Amber** -- Deficiency – risk of immaterial misstatement

Internal controls

	Assessment	Relevant to MOPAC/ CPM/ Both	Issue and risk	Recommendations
2	 Amber	Both	<p>Service Organisation Control reports</p> <p>Service Organisation Control (SOC) reports are internal control reports on the services provided by a service organisation. They provide valuable information that users need to assess to mitigate the risks associated with an outsourced service. They are the industry norm in most areas where services are delivered by an outsourced provider. As MOPAC and the CPM have outsourced ICT, Pensions and Payroll, which are material to financial reporting, we expect MOPAC and CPM as a matter of routine to obtain SOC reports from service providers in respect of the internal controls they operate on MOPAC and the CPM's behalf, including IT network and database security, password control and firewall controls.</p> <p>We were unable to obtain these reports from CapGemini in respect of the MPS's overall IT environment ,or from Logica in respect of the processing of payroll payments totalling £2.5 billion per annum. We gained the requisite assurance instead by receiving alternative information from CapGemini and by visiting the Logica site. MOPAC and the CPM should aim to obtain Service Organisation Control reports from their material service providers, to satisfy themselves over the effectiveness of providers' IT controls and mitigate the risk of increased external audit costs.</p>	<p>Recommendation for the CPM (R5): Ensure that Service Organisation Control reports are obtained for all material service providers.</p>

Assessment

 **Red** – Significant deficiency – risk of material misstatement

 **Amber** -- Deficiency – risk of immaterial misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to MOPAC and the CPM before we conclude our audits.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with those charged with governance and been made aware of a number of minor internal investigations which are not material to the financial statements of either MOPAC or the CPM. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Annual Governance Statements	<p>We have reviewed the Annual Governance Statements for MOPAC and the CPM and are satisfied these are consistent with our knowledge and comply with the CIPFA/ SOLACE Framework 'Delivering Good Governance in Local Government' subject to the following agreed amendments:</p> <ul style="list-style-type: none"> MOPAC: disclosing how MOPAC's arrangements comply with CIPFA's July 2012 Statement on the Role of Chief Financial Officer for police bodies; disclosing the Director of Audit, Risk and Assurance's annual opinion on the control environment for 2012/13 and planned actions to address this as a significant governance weakness; and disclosing governance arrangements relating to the commissioning of wider community safety and crime prevention services. CPM: disclosing explicitly the key mechanisms through which the CPM conducts his annual review of the effectiveness of MPS governance arrangements.
4.	Written representations	<ul style="list-style-type: none"> Letters of representation have been requested from the DMPC and the MPS Commissioner which we request are signed at the same time as the final audited financial statements.
5.	Disclosures	<ul style="list-style-type: none"> Our audit of MOPAC financial statements identified the need to include a subsequent events note in relation to the MOPAC decision to market for disposal the Hendon site, which management has now included in the financial statements. Following the High Court's verdict on claims against MOPAC under the Riot Damages Act on 12 September 2013, MOPAC also updated the accounts to disclose details of this verdict and its assessment of its impact on the accounting treatment adopted in respect of these claims in 2012/13. A number of other disclosure changes have been made to improve clarity and aid understanding in both MOPAC and CPM financial statements.
6.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
7.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge MOPAC's and the CPM's decisions to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that MOPAC and the CPM have each made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited bodies have put in place such arrangements. The result of this work is the Value for Money conclusion, which we give separately based on our assessment of each body's arrangements.

In completing this work we have assessed MOPAC's and the CPM's arrangements for securing value for money against the two criteria set by the Audit Commission, that:

- **MOPAC and the CPM have proper arrangements for securing financial resilience.** There are robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables both bodies to continue to operate for the foreseeable future.
- **MOPAC and the CPM have proper arrangements for challenging how they respectively secure economy, efficiency and effectiveness.** They are prioritising resources within tighter budgets by achieving cost reductions and by improving efficiency and productivity.

Value for money conclusion for MOPAC

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects MOPAC put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Value for money conclusion for the CPM

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the CPM put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Key VFM findings for MOPAC

MOPAC is working with the CPM to identify efficiency opportunities, challenge and improve financial performance and secure financial resilience over the medium term. The CPM, with MOPAC oversight, met its savings targets in the two years 2011/12 and 2012/13 in full.

Looking ahead, the financial challenges facing MOPAC and the CPM remain significant. The resource implications of policing the Olympic Games in 2012 has necessitated the back-loading of savings across the Spending Review 2010 period, peaking in 2013/14 when £265 million savings are planned to deliver a balanced budget, followed by savings requirements of £114 million and £129 million in 2014/15 and 2015/16 respectively.

In this challenging environment MOPAC and the CPM are planning to maintain financial resilience over the medium term. In November 2012 MOPAC published the joint budget for the three-year period 2013 – 16. Savings required to balance the budget have been identified for 2013/14 and 2014/15 with ongoing work by management to close the remaining budget gap of around £38 million in 2015/16.

MOPAC published the joint MOPAC/MPS budget for 2013 – 16 in November 2012 and its Police and Crime Plan in March 2013. This set out the Mayor's 20:20:20 target: delivering a 20% budget reduction; reducing crime by 20% across seven key crime types; and improving public confidence in the police by 20% while increasing police officer numbers to 31,957.

Following publication of the Police and Crime Plan in March 2013, MOPAC has made changes to its internal governance arrangements to reflect the new priority areas in the Plan, including updating its performance management framework and implementing an improved DMPC decision-making framework. MOPAC aims to embed these arrangements so they become business as usual in 2013/14. In doing so it should agree with the CPM the MetChange monitoring information requirements. This will support the holding to account of the CPM in delivering this major MPS change programme on behalf of the DMPC.

Value for Money

The Police and Crime Plan recognises the importance of effective collaboration with partner organisations in delivering the 20% increase in public confidence in the police by 2017. Some shared service arrangements, including internal audit, are already in place, with further initiatives including treasury management, media services and MOPAC IT planned in 2013/14. However, MOPAC and the CPM do not yet have a clear, shared approach to identifying and pursuing shared service opportunities.

Public reporting of information of DMPC decisions, crime performance and audit and risk management issues is good. Reporting of financial performance could be strengthened by both MOPAC and the CPM through clearer signposting on both organisations' websites to the financial performance information available and where this can be found.

Key VFM findings for the CPM

The CPM has a track record of meeting savings targets. It delivered the savings needed to meet its targets of £202 million for 2011/12 and £186 million for 2012/13 in full. It also delivered further savings totalling £50 million requested by the DMPC in 2012/13 to help increase resilience against emerging financial risks in future years. In this challenging environment MOPAC and the CPM are planning appropriately to maintain financial resilience over the medium term, with a balanced budget planned for 2014/15.

The CPM is responding to the priorities in the Police and Crime Plan published by MOPAC through the 'OneMet Strategy'. This is being delivered through three key programmes: MetChange, expected to deliver £253 million savings by 2015/16; Met InfoTech, expected to deliver £68 million savings; and Corporate Real Estate, expected to deliver £60 million savings.

The scale and ambitious nature of these programmes, and the short timescale in which they must deliver, means effective on-going scrutiny and monitoring will be vital to ensure planned benefits are realised on time. At the date of this report each programme was on track to deliver planned savings in full by 2015/16, with alternative options identified to address some forecast slippage in 2014/15.

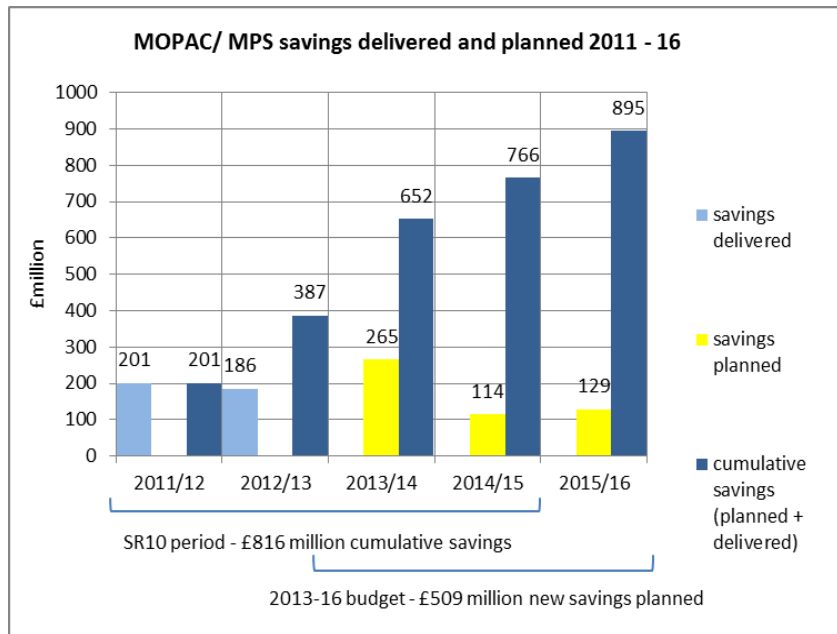
The savings being delivered through MetChange and other major change programmes are enabling the CPM to grow the number of new police officers despite significant reductions in total funding. The CPM reports it is on track to deliver the 31,957 police officer target set by the London Mayor by March 2015. This will continue to require careful monitoring. Continued effective recruitment in response to emerging changes in numbers and rank mix through turnover in police posts will be essential to ensuring the CPM remains on track to deliver the Mayor's target.

The CPM has well-established arrangements for collaborating with other police forces. It collaborated successfully with partners to police the Queen's Diamond Jubilee and the Olympic and Paralympic Games in 2012. However, MOPAC and the CPM do not yet have a clear, shared approach to identifying and pursuing shared service opportunities.

Value for money conclusions – detailed findings

In our Audit Plan we reported the risks we had identified to our Value for money conclusions for MOPAC and the CPM. The tables below set out our detailed findings against each of these risks, as well as two recommendations.

Risk area	Risk for MOPAC/ CPM/ Both	Findings and conclusions
<p>Planning for medium-term efficiencies</p>	<p>Both</p> <p>MOPAC – The resources available to support delivery of the Policing and Crime Plan are put at risk over the medium term.</p> <p>CPM – The savings required to balance the MPS budget over the medium-term are not achieved or lead to a loss of service capability.</p>	<p>MOPAC and the CPM are planning appropriately to achieve efficiency savings and secure financial resilience over the medium term. Savings targets to date have been achieved, including additional savings of £50 million in 2012/13 on top of £186 million planned savings. This is helping MOPAC and the CPM build financial resilience over the medium term, and to invest in growth in police officer numbers in line with the target set by the London Mayor. Delivering planned savings over the three years 2013 – 2016 will mean MOPAC and the CPM will have cut recurrent savings of £509 million from the revenue budget by 2015/16.</p> <p>Like all public bodies, MOPAC and the CPM have delivered significant efficiencies during the Government's 2010 Spending Review period to date. They must continue to do so, as the graph below shows.</p> <p>Delivering planned savings will mean MOPAC and the CPM will deliver cumulative savings of £766 million over the four financial years (2011-2015) covered by the Government's 2010 Spending Review (SR10) announcement. This is equivalent to 21.6% of the 2010/11 gross expenditure budget of £3,554 million. A total of £895 million savings are required across the five-year period 2011-2016.</p> <p>Delivering savings on this scale will be challenging and will require continued organisational and cultural change within the MPS to make the required financial efficiencies achievable. However, management reports the budget gap still to be closed by 2015/16 is down to £38 million, including £1 million on MOPAC budgets, with the budget for 2013/14 balanced in full and on track as at the end of the first quarter. It is important management effort continues to close the remaining budget gap. Based on performance to date the CPM and MOPAC are well placed to continue to deliver the savings required to deliver a balanced budget over the medium term.</p>



Value for money conclusions – detailed findings (continued)

Risk area	Risk for MOPAC/ CPM/ Both	Findings and conclusions
<p>Planning for medium-term efficiencies (continued)</p>	<p>Both</p> <p>MOPAC – The resources available to support delivery of the Policing and Crime Plan are put at risk over the medium term.</p> <p>CPM – The savings required to balance the MPS budget over the medium-term are not achieved or lead to a loss of service capability.</p>	<p>MOPAC has set a target to maintain general financial reserves of at least 1.5% of net revenue expenditure. At the end of 2013/14 it forecasts its general reserves will stand at 1.7% of net expenditure. It is on track to maintain reserves above target levels over the next three years while providing the financial resources to the CPM necessary to support the following key priorities, reflected in the MOPAC Police and Crime Plan 2013 – 16:</p> <ul style="list-style-type: none"> • to grow the number of police officers to 31,957 by March 2015 (30,584 in post at 30 June 2013, up from 30,265 at 31 March) • to reduce seven key neighbourhood crime types by 20% by 2016 • to increase public confidence in policing in London by 20% by 2017, as measured by the Crime Survey. <p>To achieve this during a period significant funding reductions, MOPAC and MPS management are looking at innovative ways to deliver services and structure support and back office functions. They are achieving this through several key programmes including MetChange (£253 million savings planned by 2015/16), Met InfoTech (£68 million savings planned by 2015/16) and Corporate Real Estate (£60 million savings planned by 2015/16). While slippage is anticipated on some of these programmes (set out in more detail in the next section of this report), the MPS reports it is on track to deliver all planned savings from these schemes by 2015/16. MOPAC and the CPM have identified alternative options to bridge the gap where savings are not expected to deliver as quickly in the interim period.</p> <p>Police officer numbers</p> <p>The CPM reports it is on track to achieve the target of 31,957 officer numbers by March 2015. The savings planned through MetChange, Met InfoTech, Corporate Real Estate and other change programmes help provide the financial resources to achieve this increase. The CPM is also working towards this target through planned changes in rank mix set out in the Local Policing Model, which was rolled out to 16 London boroughs in July 2013 and the remainder in September.</p> <p>The Local Policing Model moves away from the standard ratio of sergeants to constables and community support officers and instead uses a smaller number of officers at sergeant and inspector rank more flexibly across wards, based on risk, while maintaining a police constable and community support officer presence in each ward. The CPM has decided not to apply Regulation A19 so is reliant on officer turnover to achieve the rank mix changes needed, based on the assumption that between 1,300 and 1,700 police officers typically leave the MPS per year. At the end of June 2013 the CPM reported total police officer strength of 30,584 against a target of 30,786. Management forecasts the CPM is on track to achieve planned target strength of 31,209 by March 2014 and 31,957 by March 2015 through recruitment in the intervening period. The position will continue to require careful monitoring and responsive recruitment if the March 2015 target is to be achieved within the existing financial envelope.</p> <p style="text-align: right;"><i>continued...</i></p>

Value for money conclusions – detailed findings (continued)

Risk area	Risk for MOPAC/ CPM/ Both	Findings and conclusions
<p>Planning for medium-term efficiencies (continued)</p>	<p>Both</p> <p>MOPAC – The resources available to support delivery of the Policing and Crime Plan are put at risk over the medium term.</p> <p>CPM –The savings required to balance the MPS budget over the medium-term are not achieved or lead to a loss of service capability.</p>	<p>Service performance and capability</p> <p>The delivery of significant efficiency savings over the last two years has been achieved while crime has reduced in key priority areas. At the end of 2012/13, the CPM reported that reported crime across the seven crime types reflected in the Police and Crime Plan were down by 5.5% overall on the previous year, with the most significant reductions in vandalism (-18%), theft of a motor vehicle (-15%) and robbery (-11%). Theft against the person was the only one of the seven crime types which increased during the year, by 17%, which the CPM attributes principally to increasing smart phone theft. The CPM is working with a major smart phone provider to identify ways to help address this. MOPAC and the CPM have monitored the impact of the implementation of the new Local Policing Model in the first 16 boroughs over summer 2013, and report performance levels have been maintained to date.</p>

Value for money conclusions – detailed findings (continued)

Risk area	Risk for MOPAC/ CPM/ Both	Findings and conclusions
<p>Developing MOPAC and CPM governance arrangements</p>	<p>Both</p> <p>MOPAC - MOPAC's ability to hold the CPM to account and monitor delivery of the Policing and Crime Plan is dependent on the effectiveness of governance arrangements.</p> <p>CPM – without effective governance, MPS services may not be delivered in an efficient, effective way</p>	<p>MOPAC published its Police and Crime Plan in March 2013 and is restructuring its internal governance arrangements to reflect the priority areas in the Plan. These arrangements must now be embedded as business as usual . The OneMet Strategy is the principle means by which the CPM expects to deliver its share of the Police and Crime Plan. Public reporting of information on performance and risk is good but reporting of financial performance could be strengthened by both MOPAC and the CPM.</p> <p>Police and Crime Plan</p> <p>MOPAC published its Police and Crime Plan 2013 – 16 in March 2013 following a consultation exercise headed by the DMPC and the Assistant Commissioner for Territorial Policing across the 32 London boroughs served by the MPS. The Plan sets out the key priorities for policing and crime prevention over the next three years including the Mayor's '20:20:20' target.</p> <p>MOPAC is carrying out work to cost the commitments in the Police and Crime Plan to assess how they will be delivered within the existing funding envelope. This work is key to the effective delivery of the Plan but completing this after the Plan has been published increases the risk that not everything committed to in the Plan is affordable. Since issuing the Police and Crime Plan, MOPAC has reorganised its internal structure to align with the priorities in the Plan, including the appointment of a new Director of Strategy and a new Director of Offender Management. The recruitment of a new Director of Resources and Performance is planned. This new management structure will align with the DMPC's oversight arrangements, comprising:</p> <ul style="list-style-type: none"> • MOPAC Challenge and bi-lateral meetings, the formal mechanisms by which the DMPC holds the CPM to account • the Joint Investment and Asset Management Panels which advise the DMPC on investment and capital decisions • the Joint Audit Panel, which advises on audit, risk and assurance issues. <p>The OneMet Strategy is the principle means by which the CPM expects to deliver its share of the Police and Crime Plan, with the related structural change in the MPS being delivered through MetChange and other key change programmes. We have considered the governance arrangements for these programmes in more detail in the next section of this report.</p> <p>Embedding MOPAC governance arrangements</p> <p>MOPAC recognise there is scope to further strengthen the governance arrangements it currently has in place, as reflected in the Directorate of Audit, Risk and Assurance June 2013 report which gave 'limited' assurance on MOPAC's governance arrangements, due largely to the newness of these arrangements at that point in time. Key actions underway by MOPAC to strengthen governance arrangements include:</p> <ul style="list-style-type: none"> • The development of a new performance management framework, and proposals with the CPM for a joint oversight board focusing on problem-solving, tasking and MPS performance data quality. • Improving the decision-making framework to ensure that submissions to the DMPC are clearly badged as either formal decisions or briefings for information only.

continued....

Value for money conclusions – detailed findings (continued)

Risk area	Risk for MOPAC/ CPM/ Both	Findings and conclusions
<p>Developing MOPAC and CPM governance arrangements (continued)</p>	<p>Both</p> <p>MOPAC - The MOPAC's ability to hold the CPM to account and monitor delivery of the Policing and Crime Plan is dependent on the effectiveness of governance arrangements.</p> <p>CPM – without effective governance, MPS services may not be delivered in an efficient, effective way</p>	<ul style="list-style-type: none"> Developing a Commissioning Strategy as part of the Stage 2 framework setting out MOPAC's approach to commissioning community safety , crime prevention and support functions to best meet Police and Crime Plan priorities and deliver value for money. <p>By creating two senior finance posts, MOPAC aims to strengthen its financial expertise. At the date of this report, the respective roles and responsibilities of the new Director of Resources and Performance post and the existing Head of Strategic Finance and Resource Management. were still being developed in detail. In defining the scope of each of these roles MOPAC will need to consider and adhere to existing good practice guidance including CIPFA's July 2012 'Statement on the Role of the Chief Finance Officer'.</p> <p>Public reporting and accountability</p> <p>MOPAC has published DMPC decisions and information on performance and on the work of its advisory panels promptly throughout 2012/13, which is good practice. Our review of information published on the MOPAC and MPS websites during the year identified the following areas which could be strengthened:</p> <ul style="list-style-type: none"> Monthly financial performance is currently published as part of the information received by the GLA Police and Crime Committee. This is not separately published or signposted from either the MOPAC or the MPS websites. There is a risk that key information on the financial performance of MOPAC and the CPM is missed as a result. MOPAC has published the names of the DMPC's Non-Executive Advisors on its website, their responsibilities in its Annual Report, and payments made to them in its quarterly reports of all expenditure over £500. There is, however, scope to better signpost on the MOPAC website where these various pieces of information on advisors can be found, to enable a complete picture to be compiled by an interested reader. <p>Stage 2 transfer</p> <p>At the date of this report MOPAC and the CPM had agreed the details of the Stage 2 transfer plan and were on track to submit this to the Home Office in line with the national timetable. Under the plan proposed, employment contracts for most police staff will transfer from MOPAC to the CPM with the title of all assets and contracts remaining with MOPAC.</p> <p>Recommendation for MOPAC and the CPM (R6): Improve access to information already reported publicly by providing clear 'signposts' from MOPAC and MPS websites to:</p> <ul style="list-style-type: none"> financial performance information produced throughout the year (MOPAC and the CPM) details of the DMPC's advisors' roles and responsibilities included in the MOPAC Annual Report (MOPAC only) details of allowances and expenses paid to, and any relevant business interests held by, advisors (MOPAC only).

Value for money conclusions – detailed findings (continued)

Risk area	Risk for MOPAC/ CPM/ Both	Findings and conclusions
Delivering major change	<p>Both</p> <p>MOPAC – The resources available to support delivery of the Policing and Crime Plan are put at risk over the medium term.</p> <p>CPM – The MetChange programme fails to deliver in a co-ordinated way or benefits generated in one area have significant unintended consequences for areas of operation.</p>	<p>The majority of savings over the next three years will be delivered through major transformation programmes in the MPS, in particular Met Change, Met InfoTech and Corporate Real Estate. At the date of this report each programme was on track, in these early stages, to deliver planned savings in full by 2015/16, with alternative options identified to address some forecast slippage in 2014/15. The scale and ambitious nature of these programmes, and the short timescale in which they must be delivered, means effective ongoing scrutiny and monitoring are vital to ensure planned benefits are realised on time.</p> <p>MetChange The CPM expects to deliver savings of £253 million of the total £509 million annual savings needed by 2015/16 through the MetChange programme. This includes delivering savings in police staff costs of £128 million by 2015/16. Through MetChange the MPS is reviewing and redesigning how policing and support functions are delivered in London from 'end to end', comprising five key segments: neighbourhood policing, pan-London services, control infrastructure, Met HQ and support services.</p> <p>Delivery of the programme is monitored primarily by the MPS Change Board, established during 2012/13. Unlike previous change programmes which were established within individual business groups of the MPS, the Change Board maintains oversight of the programme in its entirety and the impact of interdependencies of different elements. Monthly performance is also reported to the MPS Management Board. MOPAC has played an increasing role in the design phase as the programme has developed, with particular involvement in shaping business cases supporting the Met HQ and Support Services segments. MOPAC management did not receive MetChange monitoring information consistently during 2012/13. MOPAC and the MPS should agree what MetChange information MOPAC requires and who should receive it to support MOPAC's effective and timely oversight of the programme.</p> <p>The CPM reports MetChange and its related savings are on track overall against plan. Neighbourhood Policing is in the implementation phase, the Met HQ and control infrastructure segments are preparing to go live later in 2013/14, and the remaining segments are in the design phase, due for implementation from the start of 2014/15.</p> <p>Met InfoTech The CPM expects to deliver £68 million savings by 2015/16 through improvements in IT, including the replacement of old IT systems to reduce running costs, negotiation with IT suppliers as major contracts come up for renewal, and the provision of hand-held devices to front-line officers, requiring capital investment of £187 million over the next three years. MOPAC and the CPM recognise significant investment is required in the MPS's IT infrastructure and that current IT-related costs are high when compared with other police forces. HMIC's latest VFM profile shows MPS IT costs stood at £24 per head of population served in 2012/13 compared with £12 per head for other comparable police forces. Progress against the programme is overseen by a dedicated project board in the MPS, and is then reported into MPS Change Board.</p>

continued....

Value for money conclusions – detailed findings (continued)

Risk area	Risk for MOPAC/ CPM/ Both	Findings and conclusions
Delivering major change	<p>Both</p> <p>MOPAC – The resources available to support delivery of the Policing and Crime Plan are put at risk over the medium term.</p> <p>CPM – The MetChange programme fails to deliver in a co-ordinated way or benefits generated in one area have significant unintended consequences for areas of operation.</p>	<p>At the date of this report, the MPS had developed and approved the new IT strategy and work had started to develop detailed business cases which it expected to complete in the next three months. The programme is therefore at an early stage in terms of delivery and as detailed plans are drawn up there is a risk the timing of savings and the total costs will change. MPS management is confident the programme is on track to deliver the £68 million planned savings by 2015/16 but expects slippage to occur against savings targets in 2014/15, principally because it has taken longer than originally anticipated to develop the new strategy and related business cases. The CPM is looking at options within the programme to address this slippage, as well as other options elsewhere in the budget, described in more detail below.</p> <p>Corporate Real Estate The CPM expects to deliver £60 million savings by 2015/16 and at least £300 million of capital receipts through the rationalisation and modernisation of the property estate, requiring £239 million capital investment over the next three years. The future vision for the property estate is articulated clearly in the MOPAC Estate Strategy, published in May 2013 following extensive public consultation in each London borough. Plans are aligned with the 'OneMet model' being delivered principally through the MetChange programme and include the re-location of the HQ function into less costly premises, the sale of the current New Scotland Yard site, and the closure of 63 least-used public-facing front counters, retaining one 24/7 front counter in each borough (two in Westminster) and a further 40 non-24/7 front counters. Progress against the programme is overseen by a dedicated project board in the MPS and is then reported into MPS Change Board. At the date of this report, the MPS forecast the programme was on track to deliver planned savings by 2015/16 .</p> <p>Mitigation of programme slippage MOPAC and the CPM expect both programmes to deliver planned savings in full by 2015/16. Where slippage arises in the interim this will be managed through:</p> <ul style="list-style-type: none"> • over-achievement of police staff savings, with around 1,000 fewer police staff in post than planned at the end of the first quarter of 2013/14, through a combination of voluntary exit programmes, robust scrutiny of requests for new police staff posts, and increased staff turnover. The MPS had over-delivered on planned police staff savings by £2.6 million at the end of the first quarter of 2013/14 , and this trend is expected to continue through 2014/15 • drawing down part of the £50 million underspend achieved in 2012/13, set aside to help build budget resilience over the medium-term planning horizon. <p>Recommendation for MOPAC and the CPM (R7): Agree what MetChange information MOPAC requires and who should receive it to support MOPAC's effective and timely oversight of the programme.</p>

Value for money conclusions – detailed findings (continued)

Risk area	Risk for MOPAC/ CPM/ Both	Findings and conclusions
Using shared services to deliver improvement	<p>Both</p> <p>MOPAC – The targets set in the Policing and Crime Plan are missed.</p> <p>CPM – Opportunities to gain further savings or service improvements by identifying areas where services can be shared with other organisations are missed.</p>	<p>MOPAC and the CPM do not yet have a shared, strategic approach to identifying and pursuing shared service opportunities. The current focus is on improving the efficiency of services internally in the MPS through transformational business change. Collaborative working arrangements more generally are well-established, as evidenced by the extensive use of collaboration required to successfully police the Diamond Jubilee and the 2012 Games.</p> <p>The Police and Crime Plan recognises the importance of effective collaboration with partner organisations in delivering the 20% increase in public confidence in the police by 2017. MOPAC is using its London Crime Prevention Fund to fund the delivery of community safety and crime prevention projects by local partners aimed at improving confidence, with total expenditure of £25 million in 2012/13.</p> <p>There are some areas where shared service arrangements already exist, including internal audit which is provided by MOPAC to the GLA and London Fire Brigade, and is expected to deliver a £2.1 million saving, equivalent to 25% of the GLA group's internal audit budget, in 2013/14. In June 2013 the DMPC approved plans for MOPAC to enter new shared service arrangements with the GLA to provide its treasury management, IT and media functions. The CPM is looking at co-location opportunities with other bodies, in particular London Fire Brigade, but to date there are limited instances where MPS services are co-located. MOPAC and MPS management acknowledge there is not yet a shared, strategic approach to identifying and pursuing shared service opportunities. Management's current focus is on delivering transformation through MetChange to increase the efficiency of MPS functions and better share services internally.</p> <p>Making services as lean as possible is vital in a period of continuing funding reductions. However, to ensure potentially valuable opportunities are not missed, MOPAC and the CPM should ensure there is an increased strategic focus on external shared services opportunities as MetChange and other major change programmes move into implementation and 'business as usual' phases. MOPAC has started work to address this through the development of a Commissioning Strategy, which includes consideration of how support services will be delivered in the future. Development of the Commissioning Strategy was in progress at the date of this report.</p>

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audits. We have not delivered any non-audit services to either body during 2012/13.

Fees

	Per Audit plan £	Actual fees £
MOPAC Audit	189,000	189,000
CPM Audit	160,000	160,000
Total audit fees	349,000	349,000

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

Fees for other services

Service	Fees £
None.	Nil

Independence and ethics

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

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to MOPAC and the CPM

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of MOPAC and the CPM to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how MOPAC and the CPM are fulfilling these responsibilities.

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

Appendices

Appendix A: Action plan for MOPAC

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
R1 Page 17	Update, agree and formally approve the joint financial regulations which underpin the preparation of the financial statements and set out the financial responsibilities of MOPAC and the CPM as soon as practicable.	H	Agreed – MOPAC will formally approve joint financial regulations.	December 2013 – MOPAC CFO in liaison with CPM CFO
R2 Page 19	Develop an approach to quantify the cost of support services which the MPS provides directly to MOPAC to support future decision-making on how support services are most efficiently delivered.	M	Agreed – a model will be developed to quantify these costs	March 2014 - MOPAC CFO in liaison with CPM CFO

Appendix A: Action plan for MOPAC

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
R3 page 22	<p>(a) Update and approve the draft procedure for agreeing and approving severance payments to include the following:</p> <ul style="list-style-type: none"> • an overall statement that ex-gratia payments should only be used as an option of last resort where there is a clear case in value for money terms • the expectation that pay in lieu of notice (PILON) should only be awarded if it is demonstrable that it is untenable to expect the individual to work their notice, and to make it clear that the normal expectation is that paid notice periods are worked by the individual in question • the expectation that any accrued time off in lieu or annual leave should be taken during the notice period unless there is a clear business need for the individual to work their full notice period. Where PILON is proposed, all such accrued TOIL and annual leave should be taken as part of the notice period. • the minimum record-keeping requirements expected to support proposed payments, in particular that notes of discussions held with the individual and/or their legal advisor should be documented as part of the evidence base supporting option appraisal. The reasons for an award of PILON should also be fully documented. • the circumstances, if any, under which MOPAC will meet the individual's legal costs, including a proposed cap on the amount of costs that will be met <p>(b) Where ex-gratia payments are made due to an identified deficiency with existing normal arrangements, such arrangements should be reviewed and updated to enhance their fitness for purpose and minimise the need for ex-gratia payments to be needed in the future.</p> <p>(c) Clarify the voluntary exit terms available to staff on non-standard employment contracts to minimise the need for ex-gratia payments.</p>	H	Agreed. A review of the current arrangements is being undertaken to incorporate these recommendations.	December 2013 – MOPAC COO in liaison with MPS Director of HR

Appendix A: Action plan for MOPAC

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
R4 Page 30	In conjunction with DARA, develop a detailed plan to address the the areas of weaknesses highlighted in the Director of Audit, Risk and Assurance's 2012/13 Annual Report. Allocate responsibility for delivery of the plan to appropriate senior officers and hold responsible officers to account for delivery.	M	Agreed. Many of the key issues identified in the Director of Audit, Risk and Assurance Annual Report are included in the MOPAC Governance Improvement Plan , which will be closely monitored and reviewed during the year to ensure the required improvements take place.	December 2013 – MOPAC COO with MOPAC CFO and DARA, and CPM CFO
R5 Page 31	Not applicable. CPM recommendation only	Not applicable	Not applicable	Not applicable

Appendix A: Action plan for MOPAC

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
<p>R6 Page 40</p>	<p>Improve access to information already reported publicly by providing clear 'signposts' from MOPAC and MPS websites to:</p> <ul style="list-style-type: none"> financial performance information produced throughout the year (MOPAC and the CPM) details of the DMPC's advisors' roles and responsibilities included in the MOPAC Annual Report (MOPAC only) details of allowances and expenses paid to, and any relevant business interests held by, advisors (MOPAC only). 	<p>M</p>	<p>Agreed. MOPAC website is being further developed and these recommendations will be incorporated.</p>	<p>November 2013 – MOPAC CFO</p>
<p>R7 Page 42</p>	<p>Agree what MetChange information MOPAC requires and who should receive it to support MOPAC's effective and timely oversight of the programme.</p>	<p>M</p>	<p>Agreed.</p>	<p>December 2013 - MOPAC COO in liaison with MPS Director of Transformation</p>

Appendix B: Action plan for the CPM

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
R1 Page 17	Update, agree and formally approve the joint financial regulations which underpin the preparation of the financial statements and set out the financial responsibilities of MOPAC and the CPM as soon as practicable.	H	Agreed	CFO (with MOPAC CFO) – December 2013
R2 Page 19	Develop an approach to quantify the cost of support services which the MPS provides directly to MOPAC to support future decision-making on how support services are most efficiently delivered.	M	We will work with MOPAC to review the current approach and make the necessary enhancements, which also may be used to support future decision-making on how support services are most efficiently delivered.	CFO (with MOPAC CFO) – March 2014

Appendix B: Action plan for the CPM

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
<p>R3 Page 22</p>	<p>(a) Update and approve the draft procedure for agreeing and approving severance payments to include the following:</p> <ul style="list-style-type: none"> • an overall statement that ex-gratia payments should only be used as an option of last resort where there is a clear case in value for money terms • the expectation that pay in lieu of notice (PILON) should only be awarded if it is demonstrable that it is untenable to expect the individual to work their notice, and to make it clear that the normal expectation is that paid notice periods are worked by the individual in question • the expectation that any accrued time off in lieu or annual leave should be taken during the notice period unless there is a clear business need for the individual to work their full notice period. Where PILON is proposed, all such accrued TOIL and annual leave should be taken as part of the notice period. • the minimum record-keeping requirements expected to support proposed payments, in particular that notes of discussions held with the individual and/or their legal advisor should be documented as part of the evidence base supporting option appraisal. The reasons for an award of PILON should also be fully documented. • the circumstances, if any, under which MOPAC will meet the individual's legal costs, including a proposed cap on the amount of costs that will be met <p>(b) Where ex-gratia payments are made due to an identified deficiency with existing normal arrangements, such arrangements should be reviewed and updated to enhance their fitness for purpose and minimise the need for ex-gratia payments to be needed in the future.</p> <p>(c) Clarify the voluntary exit terms available to staff on non-standard employment contracts to minimise the need for ex-gratia payments.</p>	<p>M</p>	<p>We are pleased that the auditors have acknowledged that all severance payments made in the year were appropriately disclosed and that internal procedures had been strengthened. We agree with the auditors that this good practice should now be embedded in our internal procedures and plan to work with MOPAC to make the necessary enhancements to the corporate guidance for agreeing and approving severance payments.</p>	<p>Director of HR (with MOPAC) – December 2013</p>

Appendix B: Action plan for the CPM

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
R4 Page 30	In conjunction with DARA, develop a detailed plan to address the the areas of weaknesses highlighted in the Director of Audit, Risk and Assurance's 2012/13 Annual Report. Allocate responsibility for delivery of the plan to appropriate senior officers and hold responsible officers to account for delivery.	M	In conjunction with MOPAC we will work with DARA to develop a plan and allocate responsibilities as described here.	CFO (with MOPAC CFO and DARA) – December 2013
R5 Page 31	Ensure that Service Organisation Control reports are obtained for all material service providers.	M	We will work build this requirement into our annual closedown timetable.	CFO January 2014
R6 Page 40	Improve access to information already reported publicly by providing a 'signpost' from MOPAC and MPS websites to: <ul style="list-style-type: none"> financial performance information produced throughout the year (MOPAC and the CPM) details of the DMPC's advisors' roles and responsibilities included in the MOPAC Annual Report (MOPAC only) details of allowances and expenses paid to and any relevant business interests held by advisors (MOPAC only). 	M	Agreed to provide a signpost to improve access/navigation on the Internet.	CFO November 2013

Appendix B: Action plan for the CPM

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
R7 Page 42	Agree what MetChange information MOPAC receives and who receives it to support effective, timely oversight of the programme by MOPAC.	M	Recommendation agreed. Detailed management response to follow.	Director of Transformation (with MOPAC) – December 2013

Appendix C: MOPAC draft auditor's report

We expect to issue an unqualified opinion on MOPAC's financial statements and an unqualified Value for money conclusion on MOPAC's arrangements for securing economy, efficiency and effectiveness in the use of resources. We include our draft audit report for your consideration below.

Independent Auditor's Report to the Mayor's Office for Policing And Crime

Opinion on the financial statements

We have audited the financial statements of the Mayor's Office for Policing and Crime (the Mayor's Office) for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise:

- the Group Comprehensive Income and Expenditure Statement for the Mayor's Office for Policing and Crime
- the Comprehensive Income and Expenditure Statement for the Mayor's Office for Policing and Crime
- the Group Movement in Reserves Statement for the Mayor's Office for Policing and Crime
- the Movement in Reserves Statement for the Mayor's Office for Policing and Crime
- the Balance Sheet for the Mayor's Office for Policing and Crime (MOPAC) and the MOPAC Group
- the Cash Flow Statement for the Mayor's Office for Policing and Crime (MOPAC) and the MOPAC Group
- the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the Mayor's Office for Policing and Crime in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Mayor's Office for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the accounts, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Mayor's Office and Group's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Mayor's Office for Policing and Crime as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Appendix C: MOPAC draft auditor's report (continued)

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Mayor's Office to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Mayor's Office arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Mayor's Office and the auditor

The Mayor's Office is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Mayor's Office has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Mayor's Office has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Mayor's Office's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Mayor's Office has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Mayor's Office put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Mayor's Office had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, the Mayor's Office for Policing and Crime put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of the Mayor's Office for Policing and Crime in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission

Paul Grady
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP

September 2013

Appendix D: CPM – draft auditor's report

We expect to issue an unqualified opinion on the CPM's financial statements and an unqualified Value for money conclusion on the CPM's arrangements for securing economy, efficiency and effectiveness in the MPS's use of resources. We include our draft audit report for your consideration below.

Independent Auditor's Report to the Commissioner of Police of the Metropolis

Opinion on the financial statements

We have audited the financial statements of the Commissioner of Police of the Metropolis (the Commissioner) for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise:

- the Comprehensive Income and Expenditure Statement
- the Movement in Reserves Statement
- the Balance Sheet
- the Cash Flow Statement
- the related notes.

The financial statements include the police pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 7.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/13.

This report is made solely to the Commissioner of Police of the Metropolis in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commissioner for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the accounts, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commissioner's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Commissioner of Police of the Metropolis as at 31 March 2013 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Commissioner to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Appendix D: CPM draft auditor's report (continued)

Conclusion on the Commissioner's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Commissioner and the auditor

The Commissioner is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Commissioner has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Commissioner had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, the Commissioner of Police of the Metropolis put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of the Commissioner of Police of the Metropolis in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Grady Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP

September 2013

Appendix E: Overview of audit findings

In this section we present our findings in respect of the matters and risks to our audits of MOPAC's and the CPM's financial statements we identified at the planning stage of the audit and any additional matters that arose subsequently during the course of the audit.

Account	Relevant to PCC/ CPM/ Both	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Both	Operating expenses	Medium	Other	Operating expenses understated	No	Management amended the MOPAC and CPM financial statements to report comparative figures on a gross basis. See section 2, misclassifications and disclosure changes – MOPAC and CPM for more details.
Cost of services – employee remuneration	Both	Employee remuneration	Medium	Other	Remuneration expenses not correct including: employee remuneration accrual understated; Payroll tax obligation understated	No	Management amended the MOPAC and CPM financial statements to report comparative figures on a gross basis. See section 2, misclassifications and disclosure changes – MOPAC and CPM for more details. Management has also refined the method of cost allocation within CPM, resulting in a minor £6m reclassification across cost headings.
Cost of services – other revenues (specific grants, fees & charges)	Both	Other revenues	Low	None	Material balance but no specific risk identified	No	Audit testing confirmed other revenues are fairly stated. Management has amended the CIES to show comparative figures on a gross basis.

Account	Relevant to PCC/ CPM/ Both	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Gains)/ Loss on disposal of non current assets	MOPAC	Property, Plant and Equipment	Low	None	Immaterial balance	No	No matters to report.
Riot Damages Act Claims	MOPAC	Provisions	Low	None	Material balance but no specific risk of material misstatement identified	No	Audit testing confirmed accounting entries for the payments under the Riot Damages Act are fairly stated. Testing confirmed continued funding from the Home Office for payments made to claimants under the Riot Damages Act. Testing confirmed that legal advice has been applied appropriately in financial statement entries, including the disclosure of claims currently treated as contingent liabilities.
Interest payable and similar charges	MOPAC	Borrowings	Low	None	Immaterial balance	No	No matters to report.
Pension Interest cost	Both	Employee remuneration	Low	None	Material balance but no specific risk of material misstatement identified	No	<u>MOPAC</u> Audit testing confirmed police interest cost is fairly stated. <u>CPM</u> Audit testing confirmed police interest cost is fairly stated.
Interest & investment income	MOPAC	Investments	Low	None	Immaterial balance	No	No matters to report.

Account	Relevant to PCC/ CPM/ Both	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Investment properties valuation changes	MOPAC	Property, Plant & Equipment	Low	None	Immaterial balance	No	No matters to report.
Capital grants & Contributions (including those received in advance)	MOPAC	Property, Plant & Equipment	Low	None	Material balance but no risk of material misstatement identified	No	Audit testing of significant capital grants confirmed that capital grant income is fairly stated.
Actuarial (gains)/ Losses on pension fund assets & liabilities	Both	Employee remuneration	Low	None	Material balance but no risk of material misstatement identified	No	<p><u>MOPAC</u> Audit testing confirmed actuarial losses on police pension fund as determined by the actuary, Hymans Robertson, are fairly stated.</p> <p><u>CPM</u> Audit testing confirmed actuarial losses on police pension fund as determined by the actuary, Hymans Robertson, are fairly stated.</p>
Property, Plant & Equipment	MOPAC	Property, Plant & Equipment	Medium	Other	PPE activity not valid PPE activity improperly expensed	No	Audit testing of PPE additions and individual depreciation charges confirmed that capital PPE is fairly stated in respect of PPE activity being valid and properly expensed.

Account	Relevant to PCC/ CPM/ Both	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Property, Plant & Equipment revaluation	MOPAC	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	No	Officers had not recognised the need to consider carrying out an impairment review, re-consider the carrying value or existing useful life of the Hendon Centre or identify that MOPAC's decision was a subsequent event that should be reported. See Section 2 Disclosure amended - MOPAC
Heritage assets	MOPAC	Property, Plant & Equipment	Low	None	Immaterial balance	No	No matters to report.
Investment property	MOPAC	Property, Plant & Equipment	Low	Other	Material balance, no risk of material misstatement identified	No	Audit testing of the revaluation by Deloitte Drivers Jonas confirmed investment property is fairly stated.
Intangible assets	MOPAC	Intangible assets	Low	None	Immaterial balance	No	No matters to report.
Investments (long & short term)	MOPAC	Investments	Low	None	Immaterial balance	No	No matters to report.
Debtors (long & short term)	Both	Revenue	Low	None	Material balance but no specific risk identified	No	<p><u>MOPAC</u> Audit testing confirmed debtors are fairly stated.</p> <p><u>CPM</u> Audit testing confirmed debtors are fairly stated.</p>

Account	Relevant to PCC/ CPM/ Both	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Assets held for sale	MOPAC	Property, Plant & Equipment	Low	None	Immaterial balance	No	No matters to report.
Inventories	MOPAC	Inventories	Low	None	Immaterial balance	No	No matters to report.
Cash & cash Equivalents	MOPAC	Cash & cash Equivalents	Low	None	Material balance but no specific risk identified	No	Audit testing confirmed cash is fairly stated.
Borrowing (long & short term)	MOPAC	Debt	Low	None	Material balance but no specific risk identified	No	£45m of short term borrowing misclassified as being with PWLB. Amended to show this borrowing is with local authorities. See section 2, Adjusted Misstatements – MOPAC.
Creditors (long & Short term)	MOPAC	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	No	Audit testing confirmed creditors are fairly stated.
Provisions (long & short term)	Both	Provision	Low	None	Material balance but no specific risk identified	No	<p><u>MOPAC</u> Disclosure added to explain that the liability for the accumulated absences provision is the responsibility of the CPM. See section 2, Misclassifications & disclosure changes – MOPAC.</p> <p><u>CPM</u> Accumulated absences provision initially excluded from the CPM accounts. This required a material adjustment to the CPM accounts. See section 2, Adjusted Misstatements – CPM.</p>

Audit findings

Account	Relevant to PCC/ CPM/ Both	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Pension liability	Both	Employee remuneration	Low	None	Material balance but no specific risk identified	No	<p><u>MOPAC</u> Error required restatement of IAS19 figures in the MOPAC balance sheet at 1 April 2011. See section 2, Misclassifications and disclosure issues – MOPAC.</p> <p><u>CPM</u> Error required restatement of IAS19 figures for inclusion in the CPM balance sheet at 1 April 2011 as well as 31 March 2012 and 31 March 2013. See section 2, Misclassifications and disclosure issues – CPM.</p>
Reserves	MOPAC	Equity	Low	None	Material balance but no specific risk identified	No	Error identified in note 33, Adjustments between funding and accounting basis under regulations. The pensions adjustments line needed to be shown gross and split out into 3 categories. See section 2, Misclassifications & disclosure changes – CPM.
Police Objective Analysis of expenditure	CPM	Operating expenses	Medium	Other	Operating expenses understated	No	Audit testing confirmed the Policing Objective Analysis of expenditure was fairly stated subject to one material reclassification made by management during the audit. Page 29 sets out more details
Police Objective Analysis of expenditure	CPM	Employee remuneration	Medium	Other	Remuneration expenses not correct including: employee remuneration accrual understated; payroll tax obligation understated	No	As above.

Account	Relevant to? PCC/ CPM/ Both	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Police Officer Pension Fund contributions receivable	CPM	Pension Scheme Contributions	Medium	Other	Recorded contributions not correct	No	Audit testing of 60 employer contributions and 60 employee contributions confirmed that pension scheme contributions are fairly stated.
Police Officer Pension Fund contributions receivable/benefits payable	CPM	Pension Membership Data	Medium	Other	Actuarial amounts not determined properly	No	Review of the Price Waterhouse Coopers (PwC) assessment of the Police Pension Fund Actuary, Hymans Robertson. PwC review commissioned by the Audit Commission under the current framework contract arrangement for auditing local authorities. Audit review did not identify any issues.
Police Officer Pension Fund contributions receivable/benefits payable	CPM	Pension Membership Data	Medium	Other	Member data not correct	No	Review of data provided to the actuary by the MPS Pensions Contract Management Team and by Xafinity Paymaster. Audit testing found data supplied to the actuary to be fairly stated.
Police Officer Pension Fund contributions receivable/benefits payable	CPM	Pension Membership Data	Medium	Other	Regulatory, legal and scheme rules/requirements not met	No	Review of police officer pension scheme fund disclosures and agreed to paragraph 6.5.6.8 of the Code which sets out the disclosure requirements for the police officer pension fund. Audit testing found disclosures to be fairly stated.
Police Officers Pension Fund benefits payable	CPM	Pension Scheme Benefits Payments	Medium	Other	Benefits improperly computed/ Claims liability understated	No	Audit testing of 60 payments to pensioners to confirm valuation of benefits paid for the year. Audit testing of 60 lump sum payments to new pensioners to confirm valuation of lump sum payments for the year. Audit testing confirmed benefits to be fairly stated.



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk