

The Annual Audit Letter for the Mayor's Office for Policing and Crime and the Metropolitan Police Service

Year ended 31 March 2015

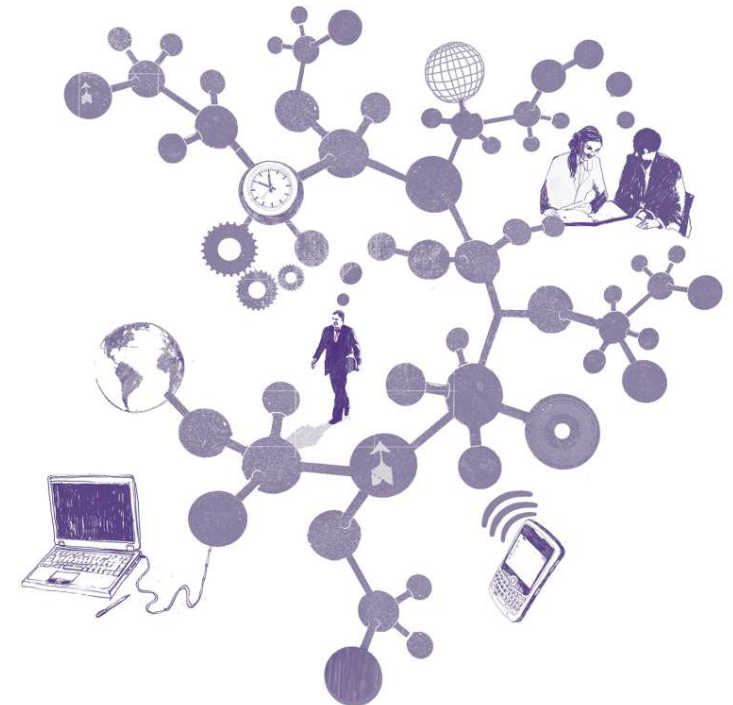
October 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the Mayor's Office for Policing and Crime (MOPAC) and for the Metropolitan Police Service (MPS) for the year ended 31 March 2015.

The Letter is intended to communicate key messages to MOPAC, the MPS and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the joint Audit Plan dated February 2015, which was taken to the Joint Audit Panel for information on 27 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report to MOPAC and the MPS in July. We also reported our findings to their joint Audit Panel in September. Overall, the draft financial statements presented for audit were of a high quality and were well supported. Only a limited number of adjustments were identified during the course of our audit. These related to disclosure and presentation issues only.

Only one of these adjustments changes the reported financial position for the year, which is the decision to recognise a provision for potential liabilities arising from the 'Bear Scotland' Employment Appeals Tribunal decision. The liability of £12.2 million has increased the expenditure of both the MPS and the group.

The other key issue which arose during the audit was in respect of pensions for retired police officers. Following the Milne vs. GAD Employment Appeal Tribunal ruling, additional lump sum payments fall liable to retired police officers. These additional costs, which should be accounted through the Police Officer Pension Fund, will be matched by additional top-up grant funding from the Home Office. The MPS originally accounted for this as a contingent liability. Subsequently, they were able to accurately determine the value of the liability and therefore made the judgement to account for as a provision within their financial statements. In their judgement, the information did not exist to enable them to calculate a reasonable estimate for this liability at the time of the preparation of the draft accounts. The MPS disclosed this as a provision and recognised a debtor to reflect the ultimate funding of this liability by the Home Office. The critical judgements that led to this accounting treatment were also disclosed within their financial statements.

We issued, on 24 July 2015, an unqualified opinion on both MOPAC's financial statements and the MPS's financial statements, for the year ended 31 March 2015. Our opinion confirms that the financial statements for both organisations give a true and fair view of both MOPAC and the MPS's financial positions, and of the income and expenditure recorded by both MOPAC and the MPS. By working with the finance team throughout the year we were able to issue opinions on both financial statements 9 weeks ahead of the deadline set by the Department for Communities and Local Government.

Key messages

Value for Money (VfM) conclusion

In common with other police forces, the MPS faces a significant challenge of working within a substantially reducing budget whilst continuing to deliver a vital public service. The medium-term financial plan identifies a need for MOPAC and the MPS to make savings amounting to £800 million over the next five years. The MPS and MOPAC continue to have a good shared understanding of the scale of the financial challenge over the period to 2020.

Our work assessed the arrangements in place in both organisations in responding to the significant financial challenge and ensuring resources are prioritised appropriately, in order to meet the challenge of reducing budgets whilst, as a minimum, maintaining operational effectiveness in service provision. We found that:

- the recommendations accompanying our most significant findings in 2013/14 have been actioned; strengthening the robustness of the governance arrangements supporting the transformation
- during the year, the MPS commenced a significant programme of work to determine a 'blueprint' for its operating model in 2020. Two iterations of the outline business case for the OneMet Model (OMM) 2020 were taken to Management Board in 2014/15, and there appears to be greater ownership by the board of the transformation change programme
- the MPS acknowledges that there are risks associated with the organisation's capacity and capability to deliver transformational change at the required pace; we agree with this assessment
- budgeting continues to be on a year-to-year basis and, as happened last year, the 2014/15 budget was achieved in part by making short-term, non-recurrent savings and by taking advantage of avoided costs. Recurrent savings from planned transformational changes continue to slip, which will not be sustainable in the long term.

We have made a number of recommendations and these are set out in Appendix A. In particular:

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 both MOPAC and the MPS have each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2015.

Key messages continued

Whole of Government Accounts	We reviewed the consolidation pack which MOPAC and the MPS prepared to support the production of Whole of Government Accounts. We reported that the pack was consistent with the audited financial statements.
Audit fee	Our fee for 2014/15 was £335,770, excluding VAT, which was in line with our planned fee for the year and was unchanged from the previous year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
1.	<p>Issue: We identified that of the £53 million 'goods received invoice not received' balance, approximately £21 million related to goods receipted more than 12 months ago. Given the time elapsed since the goods were received, it is unlikely that an invoice will ever be received.</p> <p>Recommendation: Review the 'goods received invoice not received (GRIR)' balance to identify aged items where the accrued expenditure could potentially be reversed.</p>	Ian Percival	<p>Management response: Each financial year the MPS performs a detailed quarterly review of all aged items (greater than 12 months old) within the GRIR balance. Based on this analysis accrued expenditure is reversed where it is proven that the goods receipts notes are unmatched.</p> <p>Responsible office: Joy Lincoln Due date: On-going</p>
2.	<p>Issue: We noted that the value of exit packages disclosed in the draft accounts were misstated due to an error in the direct debit request from the police staff pension provider MyCSP (although payments made by MyCSP to the individual concerned were correct).</p> <p>Recommendation: Review processes for making payments to the police staff pension provider, MyCSP, following errors identified during the course of the audit.</p>	Ian Percival	<p>Management response: The monthly period-end timetable has been revised to ensure the supporting paperwork from MyCSP can be validated quickly and any direct debit adjustments are performed in month.</p> <p>Responsible office: Joy Lincoln Due date: Completed</p>
3.	<p>Issue: We were unable to confirm management undertakes any checks on source data provided to the actuary to support the calculation of the police officer pension fund liability.</p> <p>Recommendation: Implement additional controls to ensure that information sent to and received from external experts is complete and accurate, and document the checks performed by management.</p>	Ian Percival	<p>Management response: Procedures will be established to ensure the necessary professional checks performed by management in respect of this area are well documented and transparent.</p> <p>Responsible office: Joy Lincoln Due date: October 2015</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
4.	<p>Issue: There was no evidence of checks being performed to ensure that the activity carried out by the surveyors is in line with your accounting policy (i.e. that 20% plus the top 20 properties by value are physically inspected in each year).</p> <p>Recommendation: Ensure, and document such assurance, that land and buildings revaluations carried out by the chartered surveyors you engage are in line with your accounting policy.</p>	Ian Percival / Jane Bond	<p>Management response: All valuations are undertaken in accordance with RICS Red Book practice, meeting IFRS & CIPFA requirements. In place, records will be updated to the Manhattan data base when inspections are undertaken (to effectively demonstrate that the four year programme of land and buildings revaluations covers all the MOPAC estate in line with MOPAC/MPS accounting policy). The annual records will be noted as part of the valuation report.</p> <p>Responsible office: Jane Bond Due date: November 2015</p>
5.	<p>Issue: Our testing of 'large and unusual' journal entries identified some journals where authorisation by a third-party officer had not been obtained before the journal entry was posted to the general ledger. This repeats a finding from our audit of your 2013/14 financial statements.</p> <p>Recommendation: As noted in our prior year Audit Findings Report, there is scope to fully roll-out SAP workflow for journals to make the process of journal authorisation an electronic process. This would avoid the need for manual journal forms.</p>	Ian Percival	<p>Management response: This recommendation will now be addressed as part of the Oracle Implementation - expected to go live October 2016.</p> <p>Responsible office: Giovanni Parodi / Mukesh Dev Due date: December 2015</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
6.	<p>Issue: We undertook detailed work on security and access controls within your SAP main accounting system. This identified no significant weaknesses, although we noted four areas where improvements could be made to improve overall security of the system.</p> <p>Recommendation: We made four minor recommendations to improve security and access controls within your SAP main accounting system. These have been shared with responsible staff in Digital Policing, who are awaiting analysis and impact assessment from your support suppliers of carrying these out.</p>	Chris Naylor	<p>Management response: One of the four recommendations has already been addressed through a recent change request for time recording. Two other change requests are being progressed to address the other three recommendations. These are chargeable and need to go through the BSS governance boards to approve expenditure. They have been registered on the BSS Request Log. The new BSS Board meets on Monday 17 August 2015 and will review all changes. Once approved Unisys will be able to carry out the work. It is estimated that the work will be completed by December 2015 at the latest.</p> <p>Responsible office: Giovanni Parodi / Mukesh Dev Due date: December 2015</p>
7.	<p>Issue: The level of detail about design principles is reduced in the revised Strategic Outline Case (SOC) considered in June 2015, there is no information about assumptions and constraints, and there is no outline of the key change programmes.</p> <p>Recommendation: Consider whether the constraints and assumptions included in the December 2014 strategic outline case for the One Met Model (OMM) 2020 should be retained in future updates to the business case, as they provided a useful summary of the high-level design principles informing the overall design.</p>	Robin Wilkinson	<p>Management response: The constraints and assumptions will be carried through to future updates to the Business Cases. Our use of the high-level design principles has matured. These have been developed in more detail and form the core of the OMM2020 Blueprint. These principles will inform the mandates for all future design and change activity.</p> <p>Responsible office: Robin Wilkinson Due date: December 2015</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
8.	<p>Issue: We noted that the challenge now is to ensure that the OMM 2020 blueprint truly drives the requirements for change programmes across the MPS, rather than the other way around.</p> <p>Recommendation: Identified a 'senior supplier' role for each element of the portfolio, separately from the 'senior responsible officer'. This would ensure clearer accountability for the delivery of benefits, and create healthy tensions to further improve governance and risk management across the portfolio.</p>	Robin Wilkinson	<p>Management response: We currently operate a network of Senior Users aligned to each element of the portfolio. We will ensure that these roles, and those who perform them, have clearer lines of accountability from SROs. We will deliver this action in line with the roll-out of the new Programme Transformation Office and realignment of Portfolios to the Blueprint (due November 2015).</p> <p>Responsible office: Robin Wilkinson Due date: December 2015</p>
9.	<p>Issue: The Total Technology Strategy 2014-17 reported that the 'Project Cull' review is being implemented to reduce the number of on-going projects within Digital Policing. Project Cull is being undertaken before the OMM 2020 is finalised; it is therefore essential the Total Technology strategy is refreshed once the technology requirements implied by the OMM 2020 become clearer, to ensure alignment with the wider organisational blueprint is maintained.</p> <p>Recommendation: Refresh the technology strategy (and any other significant supporting strategies) as the organisation's requirements become clearer following the OMM 2020 design phase.</p>	Chris Naylor / Steve Deakin	<p>Management response: The Total Technology Strategy document published in 2013 will be updated with the OMM2020 vision, strategy and solutions by Digital Policing and the OMM Strategic Design Authority. This document will be completed by end 2015 and then republished in Jan 2016 as the Met Technology Strategy 2016-2020.</p> <p>Responsible office: Steve Deakin / Les Ding Due date: January 2016</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
10.	<p>Issue: Current arrangements within Digital Policing may mean that interdependencies between technology change and other types of transformation are not identified and managed effectively.</p> <p>Recommendation: Consider bringing reporting lines for transformation activity within Digital Policing in to line with reporting lines for other elements of the overall transformation programme..</p>	Robin Wilkinson	<p>Management response: Work to simplify the reporting lines between DP and OMM2020 have developed significantly. A monthly 'Alignment Board' (which all 'enabling functions' attend) commenced in July 2015 providing integrated oversight to OMM2020 planning and design. This is supported by a weekly working group of senior leads from across OMM2020 & enabling functions to review and align feedback on design work, business cases and projects in delivery. The Blueprint has been developed iteratively with DP and will be ready for November 2020.</p> <p>Responsible office: Robin Wilkinson Due date: Completed – meetings already running</p>
11.	<p>Issue: It is essential that the medium term financial plan is closely linked to the strategy and design being worked on as part of OMM 2020. There appears more scope for further integration and alignment than is currently in place.</p> <p>Recommendation: Undertake further work to cost the Digital Policing capital and revenue budget over the next 5 years, given that the OMM 2020 'enterprise view' suggests significant investment in new technology will be needed to deliver the anticipated benefits.</p>	Lynda McMullan	<p>Management response: The budget strategy will include agreed investment in DP aligned to affordable OMM design. This will be 2016/17 to 2019/20 to align to expected SR period.</p> <p>Responsible office: Lynda McMullan Due date: February 2016</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
12.	<p>Issue: We note that only £2.5 million was devoted to Total Professionalism in 2014/15, of which almost half was not spent and rolled forward to 2015/16. In our view this is insufficient, and continued failure to accord sufficient priority to cultural change risks undermining the significant investment being made in the overall OMM 2020 transformation programme.</p> <p>Recommendation: Ensure sufficient priority is accorded to cultural change, including investing more resources in the Total Professionalism programme, given that it is about to implement such an ambitious and far-reaching major change programme.</p>	AC Martin Hewitt	<p>Management response: A review of the Total Professionalism programme is due to be undertaken in September 2015. This will review its current aims and identify the key behavioural and cultural change activities that are required over the next 1-2 years. The review will consider the resource implications, how these can be met and whether a further business case is required as the programme moves into its next phase of development in 2016/17.</p> <p>Responsible office: AC Martin Hewitt Due date: March 2016</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
13.	<p>Issue: The May 2015 Portfolio Report shows that, at this stage, only £110 million of cumulative savings have been identified against a target of £760 million. The scale of savings yet to be identified serves to emphasise the need for a relentless focus on changes that will reduce the overall costs of policing London.</p> <p>Recommendation: Develop a longer-term, strategic approach to the identification and delivery of cost-saving initiatives.</p>	Ian Percival	<p>Management response: A financial strategy has been developed to shape the savings' requirements to the end of the decade:</p> <ul style="list-style-type: none"> • Maximise our future spend on the frontline by aiming to keep expenditure on back office functions to about 15% of affordable expenditure by 2019/20 (currently 23%) • Making best use of the capital receipts and reserves we will invest in our services, and retained property and IT capability, to ensure we improve our productivity in front and middle office services. • Transforming the way we provide services and our operating model for example by working differently with other public sector organisations and the public. <p>The OMM 2020 work is designing how the MPS will look in 2020 using the above as a framework to drive the £800m savings' requirement. The OMM Blueprint is the strategic design document for MPS transformation. This document translates the MPS strategic intent into a description of the business and therefore is the foundation for the execution of business change.</p> <p>A summary of savings will be included in the budget package due with the GLA in November.</p> <p>Responsible office: Ian Percival / OMM team Due date: Preliminary strategy published end of October 2015, pending CSR.</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
14.	<p>Issue: Given the gaps in the June 2015 SOC, there is a significant amount of work still required before the MPS is able to clearly express the costs and benefits associated with OMM 2020.</p> <p>Recommendation: Consider how best to develop staff with the financial planning and analysis skill set required for a programme of this scale, and ensure that sufficient staff with this capability are dedicated to the programme, to provide greater clarity about the overall costs and benefits associated with OMM 2020.</p>	Lynda McMullan	<p>Management response: The Commercial and Finance (C&F) Target Operating Model will focus on skills development and improved capability:</p> <ul style="list-style-type: none"> • We have created a smaller more focused team with Strategic and Corporate Finance – “<i>strategic financial planning</i>” – which will be in operation from 2 November 2015. • We have engaged external support on financial strategy development and will launch the new financial strategy for 2016 that will, over time, be the vehicle for the MTFP within which the OMM will operate. • By 2 January 2016 we will have in place a training programme to address skills improvement for C&F staff. <p>Responsible office: Lynda McMullan Due date: End of January 2016</p>
15.	<p>Issue: We noted that many of the savings reported in this year arose from short-term, non-recurring actions rather than the planned transformative savings initiatives.</p> <p>Recommendation: Ensure the costs and benefits of the change programmes are disaggregated from the base budgets and reported in sufficient granularity to enable effective monitoring, scrutiny and identification of non-delivery of anticipated benefits. Note that this repeats a recommendation from our 2013/14 audit findings report.</p>	Ian Percival / Phil Woolf	<p>Management response: We will look to implement this recommendation this financial year with the aim of full implementation for 2016/17 when the significant savings from transformation will commence.</p> <p>Responsible office: Ian Percival / Phil Woolf Due date: April 2016</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
16.	<p>Issue: There is a need for greater control of capital expenditure forecasting and planning, because non-delivery of the planned programme suggests that either the original forecasts were inaccurate, or that strategic objectives for the programme are not being met. This reiterates the findings from more detailed work by DARA in their Capital Programme Control Framework review.</p> <p>Recommendation: Implement the recommendations from the DARA Capital Programme Control Framework review, which we endorse, as current arrangements for capital expenditure forecasting and planning suggest either that current forecasts are inaccurate, or that strategic objectives for the capital programme are not being met.</p>	Ian Percival	<p>Management response: We will implement the recommendations as per our response to the DARA report.</p> <p>Responsible office: Ian Percival</p> <p>Due date: Dates as specified on report timetable (all by year end).</p>
17.	<p>Issue: We note that there is a clear interdependency with the Total Professionalism programme in the Commercial Strategy, which needs to be managed effectively.</p> <p>Recommendation: Ensure that interdependencies between the Commercial Strategy and the Total Professionalism programme are identified and managed appropriately, given that both aim to achieve significant cultural change across the organisation.</p>	AC Martin Hewitt / Lynda McMullan / Lee Tribe	<p>Management response: The review of the Total Professionalism Programme (referenced at Recommendation 12) will consider the interdependencies with the Commercial Strategy and agree the best approach for managing these links.</p> <p>Responsible office: AC Martin Hewitt / Lynda McMullan / Lee Tribe</p> <p>Due date: October 2015</p>
18.	<p>Issue: The required up-front investment means that the expected savings will not occur until at least year three of the contract.</p> <p>Recommendation: Update the medium-term financial plan with the latest estimates of planned investment and anticipated savings from the business support services outsourcing arrangement.</p>	Ian Percival	<p>Management response: Complete</p> <p>Responsible office: Ian Percival</p> <p>Due date: August 2015</p>

Appendix A: Key issues and recommendations continued

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Owner	Management response/ responsible office/ due date
19.	<p>Issue: We noted that many of the savings reported in this year arose from short-term, non-recurring actions rather than the planned transformative savings initiatives.</p> <p>Recommendation: Ensure transparency of progress and achievement, reporting delivery of in year budgets separately from achievement of planned, transformative and recurrent savings in line with your strategic objectives.</p>	Ian Percival	<p>Management response: This links with recommendation 15 and will be implemented in the same timescale.</p> <p>Responsible office: Ian Percival Due date: April 2016</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
MOPAC scale fee	175,770	175,770
MPS scale fee	160,000	160,000
Total audit fees	335,770	335,770

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit related services (tax)	84,750

Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	July 2015
Annual Audit Letter	October 2015



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