

Annual Audit Letter

September 2007



# Annual Audit Letter

**National Probation Service - Thames Valley**

**Audit 2006/07**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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## Purpose, responsibilities and scope

- 1 This letter summarises the key issues arising from our work carried out during the year. I have addressed this letter to Board members as it is the responsibility of the Board to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Board in meeting its responsibilities.
- 2 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 3 I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 4 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Board's accounts; and
  - whether the Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 5 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations for the Board to consider. The closing remarks section at the end of this letter contains a list of all reports issued to the Board relating to the 2006/07 audit.

## The audit of the accounts

- 6 We are required to give an opinion on whether:
  - the financial statements give a true and fair view, in accordance with the Criminal Justice and Court Services Act 2000 and directions made thereunder by the Secretary of State, of the state of the Probation Board's affairs as at 31 March 2007 and of its net operating costs, recognised gains and losses and cash flows for the year then ended;
  - the part of the Remuneration Report to be audited has been properly prepared in accordance with the Criminal Justice and Court Services Act 2000 and directions made thereunder by the Secretary of State; and
  - in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.
- 7 I issued my unqualified opinion on the financial statements on 28 June 2007. This was before the national deadline of 6 July.

- 8 Before we give our opinion on the accounts, we are required to report to those charged with governance (in this case the Board) significant matters arising from the audit. A detailed report was presented to the Board on 14 June 2007.
- 9 There were no significant issues arising from our work. The accounts were produced on time and, as in previous years, were complete with good supporting documentation.
- 10 A memorandum on both our interim and opinion audits listing the issues arising has been agreed with management. We will ensure that these issues have been successfully resolved as part of our 2007/08 audit. Based on our work on the interim and the opinion audit of the financial statements, we have not changed our risk assessment for our audit of the financial statements as 'low'.
- 11 There have been recent changes in the structure of - and in key personnel in - the Finance Department. We will work with the Board to ensure that new staff understand our approach and that the good standard of working papers and supporting documentation continues for future opinion audits.

***Recommendation***

*R1 Ensure the structure and resources of the Finance Department are 'fit for purpose' for a probation trust.*

## Use of resources

### Financial position

#### 2006/07 financial position

- 12 The Board again actively managed its conflicting financial and performance management pressures, and the specific risk of a potential overspend on staff in 2006/07, and carried forward a £310k under-spend (£282k under-spend with resultant 10 per cent performance bonus of £28k) into 2007/08.

#### Financial position in 2007/08 and future years

- 13 We have reported in previous years the ongoing tension for the Board in managing staff recruitment and retention to ensure services can be delivered and maintaining the balance between meeting performance targets and ensuring the Board does not overspend. Additional financial pressures for 2007/08 have been:
  - an increase in grant that does not cover increases in staff pay. Therefore, cuts have been made in the provision of non-core services; and
  - funding for specific activities such as approved premises which does not cover additional costs associated with these activities.
- 14 As at the end of August 2007, the Board was under-spending against budget. This was due to under-spending on hostels and programmes, although both are budgeted to incur greater costs in the second half of 2007/08. Failure to achieve a break-even position for the financial year should not be an issue.
- 15 As in previous years, the risk remains to manage the financial position and meet all performance targets within the new performance framework. The Integrated Probation Performance Framework (IPPF) includes a wider range of performance measures than the previous balanced scorecard approach. Although there have been improvements in Board performance in areas of previous concern, these need to be placed within overall performance relative to other boards (although initially in the lowest of the four bands nationally, performance reported in September placed the Board in band two - one band higher).
- 16 The Board will therefore need to continue to manage the ongoing tensions between meeting the wider performance and financial targets both in 2007/08 and, longer-term, within the organisational structure for future probation trusts.
- 17 Effective management of available finances will become even more important in future years, given the proposed nil increase in grant over the next three financial years. Also, proposals have been circulated for the long-term revision of the funding formula for probation boards from 2009/10. All current funding formula proposals mean a significant reduction in the base grant for the Board and do not reflect the Board's relatively high proportion of tier four (high-risk) offenders.
- 18 The Board will therefore need to make representations on the proposed approach as all the current models create significant financial risks to the Board.

**Recommendation**

*R2 Ensure the Board maintains involvement and develops a strategy to mitigate the financial and performance risks from the proposed change in the grant funding formula.*

**Value for money conclusion**

- 19 We are required to issue a conclusion on whether we are satisfied that the Board has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion and requires the review of the following criteria agreed by the Audit Commission in relation to the Board's arrangements for:
- monitoring and scrutiny of performance;
  - maintaining a sound system of internal control;
  - managing its significant business risks;
  - managing and improving value for money;
  - ensuring that it's spending matches its available resources;
  - managing performance against budgets; and
  - promoting and ensuring probity and propriety in the conduct of its business.
- 20 Our conclusion was that the Board did have proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources. A final report with an action plan has been agreed. We will review progress against these recommendations as part of our 2007/08 audit work.

**Recommendations**

*R3 Ensure, to support the Integrated Probation Performance Framework, standards are understood and systems exist to build in and embed the reporting of data quality performance measures.*

*R4 Review the effectiveness of revised senior management arrangements to ensure clear demonstration of effective performance management within the organisation.*

*R5 Ensure the good management practice expected for a 'fit for purpose' probation trust has been clearly communicated throughout the organisation and monitor progress in bringing all management up to this level.*

*R6 Develop a longer-term business planning approach which sets the foundation for being 'fit for purpose' for trust status.*

**Recommendations**

*R7 Implement the effective application and embedding of the new risk management system and ensure this is not unnecessarily delayed by the departure of the Director of Strategy and any subsequent restructuring of executive positions.*

## **National Fraud Initiative**

- 21 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in January 2007.
- 22 The initial findings from this work have been discussed with the Director of Finance. At this stage, there are no issues arising that we wish to bring to your attention.

## Closing remarks

- 23 This letter has been discussed with the Chief Officer and the Treasurer, and was presented to the Audit Committee on 21 September 2007. A copy should be provided to all Board members.
- 24 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Board during the year. These are listed in the following table.

**Table 1      Reports issued for the 2006/07 audit**

<b>Report</b>	<b>Actual date of issue</b>
Audit Plan	21 March 2006
Annual governance report including opinion on accounts and VFM conclusion	14 June 2007
Interim and opinion audit memorandum	9 August 2007
Use of resources report	13 August 2007
Annual Audit Letter	21 September 2007

- 25 The Board has taken a positive and constructive approach to our audit and I would like to thank the Board for its help and cooperation during the audit.

**A P Burns**  
**District Auditor**

21 September 2007