

Annual Audit Letter

September 2005



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National Probation Service - South Yorkshire

Audit 2004/2005

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we monitor spending to ensure that public services are good value for money.

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Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- 1 This section of the letter draws together the key messages from our audit work and summarises the actions needed to be taken by the Board.

Performance

- 2 This year we completed reviews of the Board's arrangements for risk management and performance management.
- 3 The Board has made good progress in embedding a risk management culture since the adoption of the NPD's Business Risk Policy in 2003. Generally the Board's risk management framework meets expected standards although there is scope for the Board to further develop its arrangements.
- 4 Performance management arrangements demonstrate a number of good practice features which were recently reflected in the Effective Supervision Inspection. Future developments in implementing the new electronic case management system should facilitate better, more timely performance information which should help the service target and better focus its improvement action planning.

Actions needed by the Board

- 5 The Board should seek to further embed risk management by:
 - better integrating the risk management framework with the Board's performance management business process;
 - establishing a more formal, framework for critically challenging the effectiveness of the actions being taken or planned in managing the top ten business risks; and
 - developing a high-level reporting framework.
- 6 In addition, on performance management, the Board will need to continue to evaluate the effectiveness of the performance management framework as it seeks to integrate this framework with other business processes.

Performance audit

Risk management

- 7 This review was requested by the Board to help it evaluate the effectiveness of both the risk management framework and its implementation as disclosed by the Board in the 2003/04 Statement of Internal Control.
- 8 The Board's current arrangements have a number of positive features.
 - Risk registers are in place for each of the business risks identified.
 - A risk owner is assigned the responsibility to manage each identified risk.
 - Quarterly review meetings are held between the Business Risk Manager and the individual risk owner to update the risk assessment.
 - The Audit Committee regularly reviews progress on risk management and invites risk owners to the Committee to explain the risk areas and controls in place.
- 9 Looking forward, we noted three key areas where the Board should seek to further develop its current arrangements.
 - Better integrating the risk management framework with the Board's performance management business process.
 - Develop a more formal, framework for critically challenging the effectiveness of the actions being taken or planned in managing the top ten business risks.
 - Develop a high-level reporting framework.
- 10 A final report has been agreed with officers in July 2005 and officers are currently finalising the action plan for implementing the report's recommendations.

Performance management

- 11 In accordance with our Code of Practice responsibilities, we reviewed the Board's overall Performance Management arrangements.
- 12 The Board continues to work within a clearly defined national framework of aims, objectives and targets. Performance in 2004/05 against the nationally determined targets gave the Board an additional £628,000 of funding for 2005/06. The final weighted scorecard for the year ranked the Board 35th out of 42 Boards.

- 13 Overall, arrangements show a number of good practice features which were reflected in the recent Effective Supervision Inspection.
- National service aims have been consistently set out in corporate and divisional plans and arrangements are in place to translate national targets into division, team and individual objectives.
 - Information on performance is collated and reported to senior and operational managers on a monthly basis. Future developments in implementing the new electronic case management system should facilitate better, more timely performance information which should help the service target and better focus its improvement action planning.
- 14 Looking forward, we noted three key areas where the Board should seek to further develop its current arrangements.
- Not all specific corporate objectives such as race equality were explicitly integrated into all performance plans.
 - Commentary and analysis on monthly performance reporting needs to become more detailed and robust.
 - Formalised arrangements for sharing good practice across the organisation need to be further developed.
- 15 A final report on performance management has been presented to officers and the recommendations have been verbally agreed, in advance of a completed action plan.

Accounts and governance

Audit of 2004/05 accounts

- 16 We gave an unqualified audit opinion on the 2004/05 accounts on 28 July 2005, which indicates our satisfaction that the financial statements present fairly the Board's financial position. We were also able to conclude that the Board has adequate arrangements for ensuring income and expenditure has been applied to the purposes intended by Parliament.
- 17 Improvements by the NPD to their accounts template meant that the problems encountered by Areas last year were not repeated. The financial statements and supporting evidence presented for audit being of a high quality. No significant accounting issues were identified.

Report to those with responsibility for governance in the Authority

- 18 We are required by professional standards to report to those charged with governance (the Audit Committee) certain matters before we give an opinion on the financial statements.
- 19 Our work identified no matters to be reported. The weaknesses identified in last year's report on the arrangements for appraising risk management have been covered as part of our risk management review previously reported in the Performance section of this letter.

Financial standing

- 20 The Director of Finance and Partnerships (DFP) has continued to provide strong financial management. In 2004/05, final expenditure was within £79 of the final resource limit issued by the NPD.
- 21 The Board's initial settlement for 2005/06 was increased on the 30 June by £1.194 million to £23.035 million. This includes an allocation of £907,000 to meet the costs of additional employer's pensions contributions effective from the 1 April 2005.
- 22 The latest financial reports to the Board show an expected outturn in line with the budget.

Systems of internal financial control

- 23 We have not identified any significant weaknesses in the Board's system of internal financial control. As in the past, the Board has relied substantially on Internal Audit for their controls assurances.

- 24 At a national level, the Audit Commission reviewed how the National Probation Service Audit and Assurance Unit addressed the requirements of the Government Internal Audit Standard. Generally satisfactory arrangements for compliance with the GIAS were found to be in place, though where areas for improvement were identified then actions to address these improvement issues have been agreed with the Head of Internal Audit for the NPS. Our local review of Internal Audit arrangements raised no issues.
- 25 The Director of Finance and Partnerships, on behalf of the Board, continues to develop the internal control framework to provide ongoing assessment of the financial control environment, as part of the wider internal control framework. The planned internal audit work in 2005/06 is progressing and at this stage there are no matters that need to be brought to member's attention.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 26 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Legality of transactions

- 27 We have not identified any significant weaknesses in the framework established by the Authority for ensuring the legality of its significant financial transactions.

Other work

National Fraud Initiative

- 28 In 2004/05 the Board took part in the Audit Commission's National Fraud Initiative (NFI 2004/05) for the first time. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector.
- 29 A small number of data matches was identified and promptly followed up by the Board. No instances of fraud were noted. The Board should use this evidence as assurance about internal arrangements for preventing and detecting fraud.

Looking forwards

Future audit work

- 30 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, will be reported in next year's Annual Audit Letter.
- 31 We have sought to ensure, wherever possible, that our work relates to improvement priorities of the Board. We will continue with this approach when planning our programme of work for 2006/07.

Revision to the Code of Audit Practice

- 32 The statutory requirements governing our audit work are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 33 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was agreed with the Audit Committee in March 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Board's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

We are working with the Director of Finance and Partnerships to enable the Board to fully understand the implications of the new Code.

Closing remarks

- 34 This letter has been discussed and agreed with the Director of Finance and Partnerships, on behalf of the Accountable Officer. A copy of the letter will be presented at the Audit Committee meeting on 11 October 2005.
- 35 The Board has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Board's continued assistance and co-operation.

Availability of this letter

- 36 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Board's website.



Sue Sunderland
District Auditor
11 October 2005

Appendix 1 – Background to this letter

The purpose of this letter

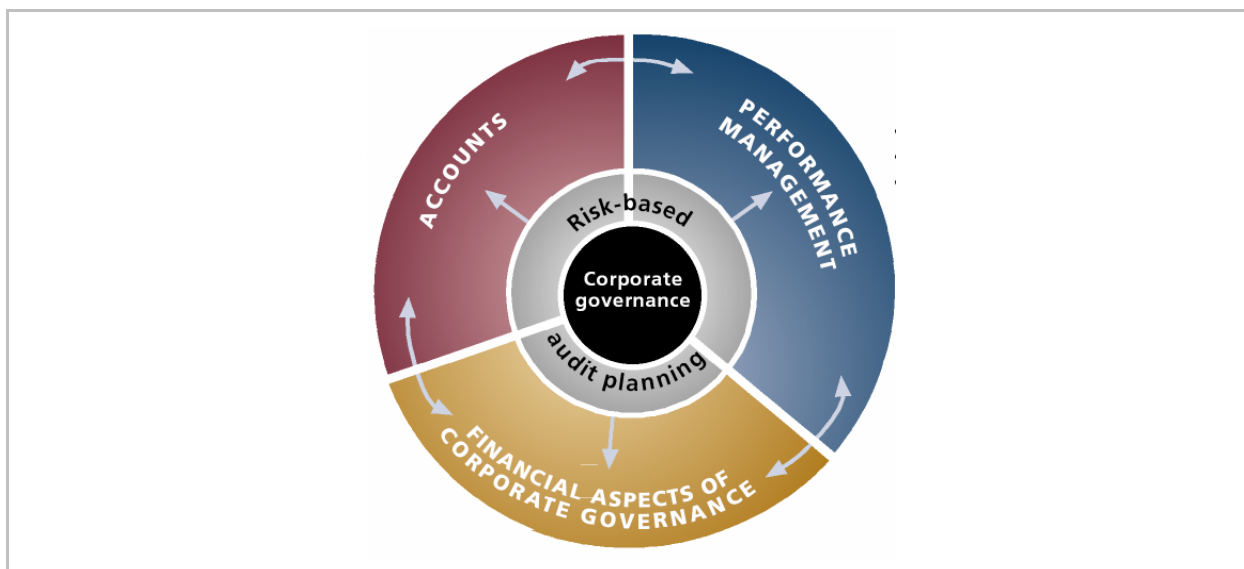
- 1 This Annual Audit Letter summarises the conclusions and significant issues arising from our recent audit of the Board.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of Practice responsibilities



- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion on financial statements.
- Regularity opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.

Appendix 2 – Audit reports issued

Table 1

Report title	Date issued
Audit Plan	March 2005
Internal Audit and Core Process Review	May 2005
Risk Management	July 2005
Report to those Charged with Governance on the Financial Statements 2004/05 (SAS 610)	July 2005
Performance Management (draft)	September 2005

Appendix 3 – Audit fee

Table 2 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	10,000	10,000
Financial aspects of corporate governance	11,000	11,000
Performance	7,000	7,000
Total Code of Audit Practice fee	28,000	28,000
Additional voluntary work (under section 35)	0	0
VAT	4,900	4,900
Total	32,900	32,900