

Annual Audit Letter

October 2007



# **Annual Audit Letter**

**National Probation Service - South Yorkshire**

**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; and
- 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 and 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.

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# Summary

## Key messages

- 1 We gave an unqualified opinion on the financial statements on 22 June 2007 in advance of the deadline of 6 July. The accounts presented for audit were available on time and there was only one relatively minor issue which needed to be drawn to the attention of the Board in relation to the accounting statements.
- 2 We are also required to review the Board's systems of accounting and financial control, and we did not report any significant issues to the Board in relation to this review. However, supplier support for the current finance system is to be withdrawn during 2008/09. The provision of a new finance system will represent a significant and immediate challenge for the Board to manage.
- 3 We gave an unqualified value for money (VFM) conclusion on 22 June 2007. Our conclusion was that the Board had adequate arrangements in place for securing economy, efficiency and effectiveness in its use of resources. However, as we commented in July 2007, despite the sound processes in place to manage performance, the Board's latest weighted scorecard performance for 2006/07 was comparatively low compared to other Boards. I am pleased to report that the latest national information shows that the Board's relative performance has improved significantly during 2007/08.

## Recommendations

<b><i>Recommendations</i></b>
<i>R1 The Board should ensure appropriate management arrangements are promptly developed and introduced to manage the changeover to the new financial system.</i>
<i>R2 The Board should prioritise actions to improve its performance particularly in respect of those elements that will feature in the new Integrated Probation Performance Framework.</i>

## Purpose, responsibilities and scope

- 4 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.
- 5 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).
- 6 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).
- 7 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.
- 8 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

- 9 I issued my opinion on the financial statements on 22 June 2007 before the deadline of 6 July 2007. Before giving my opinion I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2006/07 audit. I issued this report on 19 June 2007.
- 10 The accounts presented for audit were available on time, and comprehensive, well referenced working papers were provided to support them. There was only one relatively minor issue which needed to be drawn to the attention of the Board in relation to adjustments to the financial statements. Cash, debtors and creditors balances were adjusted to exclude entries in relation to three bodies for which the Board provides financial and employer services, but which do not form part of its own activities. These adjustments did not affect the Board's reported financial performance for the year.

## Systems of internal control

- 11 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. We did not identify any material weaknesses in the systems of accounting and financial control.
- 12 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

## New financial system

- 13 Whilst a significant element of the Board's Information Technology requirements is provided nationally, the financial systems are provided by individual agreements between local Boards and suppliers.
- 14 The Board has recently been notified that supplier support for the current finance system (PREMIS) is to be withdrawn during 2008/09. The provision of a new finance system will represent a significant and immediate challenge for the Board to manage.
- 15 The Director of Finance and Commissioning presented an initial timetable for the introduction of the new system to the September 2007 Audit Committee. He intends that a full project plan will be developed in October 2007, and that he will report regularly on progress to the Audit Committee.
- 16 We commend the progress that has been made to date, but the project is still in its early stages, so we recommend that the Board ensure that appropriate project management arrangements are fully implemented as soon as possible.

## Use of resources

### Financial position

- 17 Expenditure in the year was £55,000 more than the grant awarded to the Board of £24 million. This overspend was within the tolerance of £60,000 agreed under the budget exchange scheme. The overspend is carried over into the 2007/08 financial year.

### Value for money conclusion

- 18 I concluded that the Board did have proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

### Performance Management

- 19 As part of the work to support our value for money conclusion we are asked to assess the Board's arrangements for monitoring and review of performance, including data quality. Our review of the Board's arrangements noted a number of positive features in place such as:
- the Board performance of 93 per cent was in excess of the 90 per cent Weighted Average Measure of Performance cash linked targets and therefore a financial bonus of £645,000 was achieved for 2007/08;
  - Internal Audit reviewed the robustness and reliability of the performance data submitted to the NPD and concluded arrangements were well controlled;
  - there was regular reporting of performance information in 2006/07 to the Board; and
  - procedures are in place so that the Audit Committee scrutinises previously raised audit recommendations.
- 20 However despite the sound processes in place to manage performance, actual performance for 2006/07 was comparatively low. The final information from the 2006/07 weighted scorecard exercise showed that South Yorkshire ranked 39th out of the 45 boards (counting the London area as four separate boards). Although the Board's overall performance substantially exceeded the minimum zero scoring, performance on indicators such as staff sickness and some elements of Court timeliness was below the NPD targets throughout 2006/07.

- 21 The Board had already recognised that its relative performance could be improved, and it has introduced initiatives aimed at improving performance, such as the Regional Performance Improvement Project, where the four Chief Officers of Yorkshire and the Humber Boards commissioned work to spread best practice on weighted scorecard measures. We understand that the latest performance information, received in September 2007 for the first quarter of 2007/08, shows a positive improvement, with the Board now ranked as a 'three star' organisation (four stars being the highest ranking).
- 22 Ensuring that these initiatives lead to sustained performance improvement is the key to demonstrating that the Board's performance management system is effective. These improvements, as measured by the new Integrated Probation Performance Framework, are likely to become even more important as the Board moves towards a more competitive regulatory environment.

## National Fraud Initiative

- 23 The National Fraud Initiative (NFI) 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.
- 24 The NFI matching exercise identified 13 hits which were all satisfactorily investigated and cleared by the Board. Consequently this is currently a low risk area for the Board.

## Closing remarks

- 25 I have discussed and agreed this letter with the Chief Officer and the Director of Finance and Commissioning. A copy of the letter will be circulated to members of the Audit Committee, before the letter goes to the Board.
- 26 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 reports are listed in the following table.

**Table 1      Reports issued**

<b>Report</b>	<b>Actual date of issue</b>
Audit plan	21 March 2006
Interim report	22 May 2007
Annual governance report including opinion on accounts and VFM conclusion	21 June 2007
Annual audit letter	October 2007

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

**Sue Sunderland**  
**District Auditor**

October 2007