

Annual Audit Letter

Bedfordshire Probation Trust

Audit 2010/11

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Traffic light explanation



Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I have included only significant recommendations in this report. The Trust has accepted these recommendations.

Key audit risk	My findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

- My audit was significantly affected due to the initial version of the financial statements template not being fully compliant with the requirements of the Financial Reporting Manual (FREM). The Trust was required to complete a revised financial statements template which was not issued by National Offender Management Service (NOMS) until mid May. A further amended version was issued on 10 June. Both of these still had consistency errors within them.

- The financial statements template submitted for audit was did not include International Accounting Standard (IAS) 19 pension information. The working papers supplied at the onset of the audit did not fully support the accounting entries. Subsequently, my work identified a further ten material errors. Of the seven that impacted on the bottom line, five arose through template issues and one from additional Pension Fund information received after the initial submission of the accounts. Despite these problems I was able to issue an unqualified opinion and certificate on 22 June 2011. In comparison, over 30 per cent of Probation Trusts nationally did not have an audit opinion issued by the due date of 23 June 2011.
- As a result of these problems a supplementary fee of £3,000 has been levied.

Value for money

The Trust's arrangements in each of the five criteria are such that I was able to issue an unqualified value for money conclusion stating that the Trust had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Current and future challenges

Economic downturn and pressure on the public sector

The economic downturn is placing increasing pressure on the public sector as a whole. This is reflected in the tighter contract settlement that the Trust, in common with other Probation Trusts, has over the next few years. Similarly, the increased pension costs arising from the triennial revaluation and changing assumptions regarding pensionable employees reduce the amount available for direct provision of services.

The Trust's medium term financial plan recognises this position, with the updated estate strategy a key strand to deliver operational and financial performance targets. Continuation of the strong financial monitoring and performance of the Trust will be essential for the continued financial health and existence of the Trust.

In order to meet the future challenges, increased joint working and the possibility of Trust mergers are all currently being considered nationally as part of the redefinition of the service. At present it is not possible to state how such changes might impact in Bedfordshire.

Accounting issues

Following on from the significant problems arising from the NOMS template in 2010/11 the Audit Commission is working with the Ministry of Justice to see how these issues can be avoided in 2011/12. At the same time, HM Treasury's Alignment Project may affect the process and timetable for preparing 2011/12 accounts. The discussions will seek to ensure that any consequential changes in requirement do not adversely impact on the requirement for a smooth closedown and audit process.

Financial statements and annual governance statement

The Trust's financial statements and annual governance statement are an important means by which the Trust's accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion and certificate on 22 June 2011.

My audit was significantly affected by the initial version of the financial statements template, provided by NOMS, not being fully compliant with the requirements of the FREM. The Trust was required to complete a revised financial statements template which was not issued by NOMS until mid May. A further amended version was issued on 10 June. Both of these still had consistency errors within them. Later instructions from NOMS advised Trusts to agree any amendments necessary to comply with the FREM with their local auditors.

The initial financial statements did not include the pension information required under IAS 19. Also the working papers supplied at the onset of the audit did not fully support the accounting entries.

My audit identified ten material errors in the revised financial statements which I set out in detail in my Annual Governance Report. Of these seven had an impact on the Trust's reported surplus. These related to:

- treatment of a cash payment in 2011/12 to Bedfordshire Pension Fund;
- calculation and accounting for the unfunded early retirement benefits and pension actuarial gain;
- template errors in the Statement of Comprehensive Net Expenditure (SoCNE);
- NOMS guidance on Corporation tax;
- differences between the actuary's valuation of the Pension Fund assets and outturn valuation;
- NOMS funding in the SoCNE and Statement of Changes in Taxpayers' Equity; and
- the treatment of the negative pension loss.

The further three material errors related to reclassification and analysis of:

- other administration costs in Note 4;
- trade payables between NOMS and Ministry of Justice – HQ; and
- capital and training funding.

Last year I recommended that the closedown procedure built in time to allow a quality review of the accounts prior to submission, this has not taken place.

The purpose of the NOMS template is to set out the required format for the Trust's accounts. However, this is a template that should be amended in specific areas to reflect the practices and issues at the Trust. My audit found that the Trust had not:

- reviewed and amended the standard accounting policies to reflect their accounting policies;
- overwritten or removed guidance/example notes; and
- included additional notes to reflect specific events at the Trust.

Due to the additional work arising from the problems with the template and closedown a supplementary fee of £3,000 has been levied.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Recommendations

- R1** Incorporate into the closedown timetable opportunity for an independent review of the financial statements prior to submission to the Audit Committee and the external auditor.
 - R2** The working papers provided at the onset of the audit are fully indexed and referenced to the key statements and notes.
 - R3** Critically review and amend any future template to reflect the true position at the Trust.
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Value for money

I considered whether the Trust is managing and using its resources to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the criteria specified by the Audit Commission. My overall conclusion is that the Trust has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
Managing finances	
1. Financial planning and financial health	The Business Plan includes the strategic priorities which link into the financial model and workload/demand planning. A robust budget preparation process is in place with good member involvement. The budget and the Business Plan are updated to reflect significant changes in circumstances such as the change in funding. The budget monitoring approach has been a contributory factor in the achievement of an underspend this year.
2. Understanding costs and achieving efficiencies	The build up of the detailed budget and the feedback from regional and national benchmarking groups assist in the cost/performance management of the Trust. The Trust identified a potential risk to achieving their desired financial efficiencies and took appropriate corrective action to manage that risk and deliver.

Criterion	Key messages
3. Financial reporting	<p>The Trust reports monthly on budget performance to both staff and members. The introduction of the new accounting system allows additional bespoke reporting which has been introduced during the year to reflect the specific needs of budget managers.</p> <p>As mentioned earlier the Trust needs to review their approach to the statutory reporting to achieve the same standard as the internal reporting.</p>
Governing the business	
4. Risk management and internal control	<p>The Trust has an effective risk management system that recognises both strategic and operational risks. There is regular member involvement in the review of the detailed risk registers and the approaches being taken to mitigate the risks. Members provide a robust challenge to the proposed actions. The move to Trust status has not adversely impacted upon the sound internal control functions of the Trust.</p>
Managing resources	
5. Workforce planning	<p>A key requirement of the move to Trust status was recognition of the skills and staff necessary to deliver the strategic priorities of the Trust. This was reflected in the detailed workforce plan which sets out the requirements and changes in staffing over the life of the existing Business Plan. This includes the performance management and development of staff.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Executive, the Head of Finance/Treasurer and the Chair of the Audit Committee. I will present this letter at the Audit Committee on 19 October 2011 and will provide copies to all Trust board members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Trust during the year.

Report	Date issued
Annual Governance Report	June 2011

The Trust has taken a positive and constructive approach to my audit. I wish to thank the Trust staff for their support and co-operation during the audit.

Paul King
District Auditor

September 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Audit Fee	£30,500	£27,500	+£3,000
Total	£30,500	£27,500	+£3,000

Appendix 2 - Glossary

Statement of internal control

Governance is about how the Trust ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which the Trust is directed and controlled and through which the Trust account to, engage with and where appropriate, lead their communities.

The statement of internal control is an element of the Trust's annual report and statement of accounts on the extent to which it complies with its own and nationally set governance arrangements, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the Trust had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

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- any member or officer in their individual capacity; or
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