
Government and Public Sector
***Cambridgeshire &
Peterborough
Probation Trust***
Annual Audit Letter

October 2011

2010/11 Audit

PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge
Cambridgeshire, CB3 0AN
Telephone +44 (0) 1223 460055
Facsimile +44 (0) 1223 552300

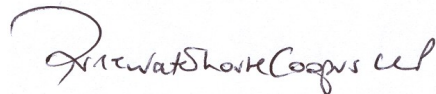
The Members
Cambridgeshire and
Peterborough Probation Trust
Godwin House,
George Street
Huntingdon
PE29 3BD

26 October 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit.

Yours faithfully



PricewaterhouseCoopers LLP

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers 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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the 1990s, the number of people in the UK who are employed in the public sector has increased from 10.5 million to 12.5 million (12% of the population).

There are a number of reasons for this increase. One is that the public sector has become a more important part of the economy. Another is that the public sector has become more efficient. A third is that the public sector has become more attractive to workers. A fourth is that the public sector has become more diverse.

The public sector is becoming more important in the economy. This is because the public sector is providing more services than in the past. For example, the public sector is providing more health care, education, and social services. This is because the population is getting older and there are more people who need these services.

The public sector is also becoming more efficient. This is because the public sector is using more technology and better management practices. For example, the public sector is using more computers and the internet. This is helping to reduce costs and improve the quality of services.

The public sector is also becoming more attractive to workers. This is because the public sector is offering better pay and benefits than in the past. For example, the public sector is offering higher wages and better pension schemes. This is because the public sector is becoming a more important part of the economy.

The public sector is also becoming more diverse. This is because the public sector is employing more people from different backgrounds and ethnicities. For example, the public sector is employing more women and people from ethnic minorities. This is because the public sector is becoming a more important part of the economy.

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Introduction

The purpose of this letter

We are required, under the Audit Commission's Code of Audit Practice (the Code), to issue an annual Audit Letter on completion of our audit, to provide a high level summary of the results of the 2010/11 audit work we have undertaken at the Trust that is accessible for the Trust and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit report for the 2010/11 financial statements, incorporating the value for money conclusion; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are those that we consider are most significant for the Trust.

Scope of work

Our audit work is 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.

The Trust is responsible for preparing and publishing its financial statements, accompanied by the Statement on Internal Control. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Statement on Internal Control;
- forming a conclusion on the arrangements that the Trust has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2011.

Audit Findings

Accounts

We audited the Trust's financial statements in line with approved Auditing Standards and issued an unqualified audit report on 21 June 2011.

We identified the following matters from our audit of the accounts:

- *Financial Standing:* The General Fund reserve at 31 March 2011 showed a net deficit of £10.3m, compared with a deficit of £17.6m at 31 March 2010. The most significant element of this movement was a decrease in the Trust's pension fund liability from £17.0m to £10.1m. £3.9m of this movement reflects the change from using Retail Price Index (RPI) to Consumer Price Index (CPI) as the basis for future pension increases.
- *Early retirement added years pension provision:* Until this year a provision was recognised within the Trust's balance sheet in respect of early retirement and pension commitments relating to added years. These are additional pension benefits which are paid by the Trust via the Local Government Pension Scheme (LGPS) to former employees who took early retirement. Following guidance issued by NOMS, the provision has been measured using the same discount rate and inflation assumptions as the LGPS actuary. This required restatement of balances reducing the overall provision from £320,000 to £254,000 as at 31 March 2011 and from £344,000 to £242,000 as at 31 March 2010.
- *Recognition of income from NOMS in the accounts and removal of the cost of capital charge from the accounts:* We reported that as a consequence of the transition from Board to Trust status from 1 April 2010 there has been a change from the receipt of income in the form of grants, to contract based income. The Statement of Comprehensive Net Expenditure has replaced the Operating Cost Statement and income received from NOMS, which was previously excluded, is now presented in the Statement of Comprehensive Net Expenditure.
- *Accounting for VAT and Corporation Tax:* The Trust falls within the scope of VAT and Corporation Tax. At 31 March 2011 the outstanding VAT liability was £519,000k (2010: £9,000). Since the Trust has computed a taxable loss for accounting purposes, there was no corporation tax liability this year. No corresponding asset has been recognised and the value of any such asset is considered by the Trust to be immaterial. We understand that the discussions between NOMS and HMRC concerning Corporation Tax treatment by probation trusts are ongoing in preparation for the submission of the first tax returns by trusts due on 31 March 2012 and this will include clarification over which activities of Trusts are taxable and which are not.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Trust had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on five criteria, unchanged from the prior year:

- Financial planning and financial health;
- Understanding costs and achieving efficiencies;
- Financial reporting;

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- Risk management and internal control; and
 - Workforce.

Based on our work in this area, we identified a number of processes and arrangements in place at the Trust relating to the criteria specified by the Commission. A summary of these was set out in our ISA 260 report.

Our overall conclusion was informed and limited by reference to the Audit Commission's criteria. In this context, we concluded that the Trust's arrangements in relation to these criteria were adequate, and our conclusion was unqualified.

Regularity

We are also required to reach a conclusion on the regularity of the Trust's expenditure. We issued an unqualified regularity opinion and have no further matters to report in respect of this.

Statement on Internal Control

Probation Trusts must include a Statement on Internal Control (SIC) in their accounts pack. We reviewed the SIC to consider whether it complied with relevant guidance and whether it was misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in the context of compliance with the relevant requirements.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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