
Government and Public Sector

***Leicestershire County
and Rutland Primary
Care Trust***

Annual Audit Letter

November 2011

2010/11 Audit



The Board
Leicestershire County and Rutland PCT
Lakeside House
4 Smith Way
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30 November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. A draft of this letter was presented to the Audit Committee at its meeting on 22 November 2011. We would like to thank all those directors and staff with whom we have had contact for their help and assistance throughout the course of our work during 2010/11.

Yours faithfully

A handwritten signature in black ink that reads 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP

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

In April 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 letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

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Executive Summary

Introduction

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at Leicestershire County and Rutland Primary Care Trust ('the PCT') that is accessible for the Board and other interested stakeholders.

We have already reported the detailed findings from the majority of our audit work to those charged with governance, which in the case of the PCT has previously been agreed as being the PCT's Audit Committee, in the following reports:

Audit Plan	January 2011
Progress Reports	September 2010 January 2011 March 2011
Report on the results of our audit of the 2010/11 financial statements under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 (ISA (UK&I) 260)	June 2011

Any work completed since the June 2011 Audit Committee meeting is reported in this Audit Letter.

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 PCT is responsible for preparing and publishing its financial statements, including 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 opinions on the statutory financial statements (including the regularity of the PCT's expenditure and the PCT's Statement on Internal Control) and the summary financial statements included in the Annual Report;
- forming a conclusion on the arrangements that the PCT 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 presented to the Audit Committee at its meeting on 7 January 2011.

Scorecard

We have set out in the rest of this report what we consider to be the most significant matters arising from our audit. The following scorecard summarises our views across the main areas of our audit.

Key



Red – significant improvements required



Amber – some improvements required



Green – no or some minor improvements required

Comments

Financial Statements



We issued an **unqualified opinion** on the PCT's post-audit financial statements on 10 June 2011.

We are also required to reach a conclusion on the regularity of the PCT's expenditure. **We issued an unqualified regularity opinion** as part of our main audit opinion on 10 June 2011.

Our audit identified issues in respect of the quality of the draft accounts presented for audit both in terms of content and presentation. We also experienced some difficulties in engaging effectively with the PCT's finance team and as a result some audit queries were not responded to positively or on a timely basis, thereby affecting the efficiency of the audit. These issues are discussed more fully later in this Audit Letter.

We identified some significant audit and accounting issues during the audit which are explained later in this letter.

Since the completion of the audit of the 2010/11 financial statements we have been working closely with the PCT's Director of Finance and her senior staff to address the issues encountered during the final audit process. This has included a round table meeting to discuss the experiences of both sides during the audit process and the production of a jointly prepared report highlighting the lessons learnt, which includes an action plan to address the key issues identified.

Annual Report and Summary Financial Statements



We reviewed whether the content of the Annual Report complied with the NHS Manual for Accounts and our review identified no significant issues. However, the PCT's processes for preparing and agreeing the Annual Report were not as efficient and effective as they should have been, which led to delays and inefficiencies in its publication.

We issued an **unqualified ('consistent with') opinion** on the PCT's Summary Financial Statements included within the Annual Report on 19 September 2011.

Financial Standing/Going Concern



The PCT achieved all of the financial reporting targets that it is required to report upon within the statutory financial statements. There were no material uncertainties related to events and conditions that may cast significant doubt on the PCT's ability to continue as a going concern. The PCT is on target to achieve its financial plans in 2011/12.

Internal Controls**G**

We reviewed the PCT's systems of internal financial control for the purposes of our audit and our review of the Statement on Internal Control. Our work identified no significant matters to bring to your attention. We reviewed the PCT's Statement on Internal Control 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 this context.

Use of resources (Value for Money) conclusion**G**

Our work was focussed so that we could give a conclusion based on two criteria:

- that the PCT had proper arrangements for securing financial resilience: and
- that it had proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We also reviewed the PCT's arrangements for planning for the effective transfer of its community services to a number of local providers including Leicestershire Partnership Trust and Derbyshire Community Health Services. We also reviewed how the PCT has made progress in addressing the requirements of the White Paper which will see the transfer of commissioning responsibilities from PCTs to Clinical Commissioning Groups (CCGs).

Based on our work we concluded that the PCT had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We therefore **issued an unqualified conclusion** on the PCT's arrangements for its use of resources on 10 June 2011.

Payment by Results (PbR) Data Assurance Framework**G**

In 2010/11, the Audit Commission required us to undertake phase 1 of a review of whether the PCT's arrangements to avoid poor quality data being used for PbR contracting were appropriate. This work was carried out in April 2011 and we identified no significant matters to report.

Audit Findings

Financial Statements

Audit Opinion

We audited the PCT's financial statements in line with approved Auditing Standards in May 2011 and the early part of June 2011. We reported the detailed findings from our audit of the financial statements to the PCT's Audit Committee at a meeting on 3 June 2011. We issued an **unqualified audit opinion** on the PCT's post-audit financial statements on 10 June 2011. We have subsequently issued a letter summarising the events between the date of the Audit Committee and the date we signed our opinion.

Accounts Preparation

Your draft financial statements were submitted to the Department of Health on time. Our audit identified a number of issues in respect of the quality of the draft accounts presented for audit, including notes that did not cast, prior year comparatives that did not agree to the prior year accounts and primary statements that did not cross reference to the supporting notes. Working papers were not available for audit on time although those that were subsequently provided were of a reasonable quality. Some key staff were not sufficiently available to deal with audit queries in an efficient and effective manner and there were times when we experienced difficulties in engaging with the PCT's finance team and as a result some audit queries were not responded to positively or on a timely basis, thereby affecting the efficiency of the audit.

Since the completion of the audit of the 2010/11 financial statements we have been working closely with the PCT's Director of Finance and her senior staff to address the issues encountered during the final audit process. This has included a round table meeting to discuss the experiences of both sides during the audit process and the production of a jointly prepared report highlighting the lessons learnt, which includes an action plan to address the key issues identified.

Audit and accounting issues

We identified the following significant audit and accounting issues during the audit. We discussed each of these points with members of the Audit Committee at its meeting on 3 June 2011, with the exception of the issues relating to valuation of property, plant and equipment, which arose after the Audit Committee meeting on 3 June 2011.

Valuations

We presented our "Report to those charged with governance (ISA (UK&I) 260)" at the meeting of the Audit Committee on 3 June 2011. At that point, our audit of the financial statements was not complete, and one of the key outstanding matters, as set out in our report at the time, was the completion of detailed testing of the PCT's property valuation and our assessment of the work of the District Valuer at the DVS, the commercial arm of the Valuation Office Agency. After the meeting of the Audit Committee on 3 June 2011 a number of issues arose in relation to the property valuation which we needed to resolve prior to signing our audit opinion on 10 June 2011.

Valuation of dwellings: The PCT had requested that the District Valuer value dwellings at Market Value, whereas the PCT's accounting policy for non-specialised dwellings, as disclosed in the accounts, is to value them at Market Value for Existing Use. We estimated that the effect of this was to overstate the value of these dwellings in the financial statements at 31 March 2011 by approximately £2,515,000 and to understate the impairment charge for the year by the same amount.

Valuation of property, plant and equipment: A separate valuation of the PCT's property, plant and equipment (excluding dwellings), was commissioned by the PCT from a different District Valuer at the DVS. During the course of our audit work we noted that the floor areas used in the valuation did not agree to the PCT's own internal records; the PCT had not noted this in its own review of the valuation. In particular, two buildings that had been valued as part of St Luke's Hospital in Market Harborough, had been demolished. The District Valuer confirmed that he had not used the correct areas, and issued a revised valuation on 9 June 2011.

The revised valuation resulted in an overall reduction of £365,000 in the value of the property, plant and equipment in question, including an impairment of £949,000, largely relating to Shepshed Health Centre and St Luke's Hospital.

Health Homes

During 2009/10 the PCT entered into 18 agreements using funding received by the PCT under the Campus Reprovision Programme. In 2010/11, the PCT continued to incur capital spend on these properties in order to fully develop and/or convert the properties for their intended purpose. Deeds of Variation (DoV) to the original agreements signed in 2009/10 were required to ensure that all PCT spend was covered by an appropriate legal charge. As was the case in 2009/10, we considered these transactions in two respects:

- accounting issues: to confirm that appropriate accounting entries had been made, including compliance with International Financial Reporting Standards and Department of Health guidance, and compliance with the conditions of the Campus Reprovision Programme grant; and
- regularity issues: including whether the PCT had complied with the Secretary of State's Directions and whether parliamentary funding had been drawn down in advance of need.

A significant number of complex issues arose during the course of this work, as a result of which considerable time was taken, both by the PCT and ourselves, in order to fully understand the nature and substance of the transactions that had taken place and determine the most appropriate accounting treatment. Our overall conclusion was that the PCT had overstated its property, plant and equipment by £1,560,000 as a result of recognising four assets as finance leases at 31 March 2011, which we concluded did not meet the criteria for being recognised as finance leases. As a consequence, the PCT had also understated its prepayments by the same amount. The PCT did not agree with our conclusions on the most appropriate accounting treatment for these assets and decided to continue to adopt the same accounting treatment that it had also adopted for these assets in the 2009/10 accounts.

Other aspects of the audit of the financial statements

There were a number of other areas where issues were found during the audit of the financial statements. All of these issues were satisfactorily resolved before we gave our audit opinion, but are areas where we will seek to work with the PCT in planning for a more efficient and effective accounts production and audit process in future years. These included:

- the production and review of the PCT's bank reconciliation;
- supporting documentation and disclosures in relation to provisions; and
- validation of amounts included in the PCT's disclosure of its management costs.

Uncorrected misstatements

We identified a number of uncorrected items, the largest items of which related to the valuation of property, plant and equipment as outlined above. Adjusting for these misstatements would have led to a reduction in the PCT's underspend against the Revenue Resource Limit (RRL) of £2,868,000 and a corresponding reduction in net assets.

After considering our ISA 260 report at its meeting on 3 June 2011, together with our updated schedule of unadjusted misstatements provided on 9 June 2011 following completion of our audit work on valuations referred to above, the PCT's Audit Committee decided not to adjust the accounts for the uncorrected items on the grounds that they were not material, either individually or in aggregate, to the truth and fairness of the accounts either taken as a whole or in connection with the ability properly to assess the performance and financial position of the PCT. We considered the qualitative and quantitative aspects of the unadjusted items and concluded that this would not adversely impact on our audit opinion.

Regularity issues

We are required to reach a conclusion on the regularity of the PCT's expenditure. **We issued an unqualified regularity opinion.**

Financial standing/Going concern

Financial standing

The PCT is responsible for ensuring that it has arrangements in place to secure its financial standing. One of our key responsibilities as auditors is to fully consider the financial standing of the PCT.

Where there are significant doubts as to the PCT's ability to meet its statutory financial duties we are required to take appropriate steps to ensure that the PCT's accounts fully reflect such matters and to draw any concerns in relation to financial standing to the attention of management, the Board and in certain circumstances, to external parties. The PCT's performance in 2010/11 in relation to the financial reporting targets that the PCT is required to report upon within the statutory financial statements is summarised below:

The PCT achieved all of the financial performance targets that it is required to report upon within its financial statements:

Target	2010/11 reported performance
<ul style="list-style-type: none"> To achieve operational financial balance by remaining within its Revenue Resource Limit (RRL) 	<ul style="list-style-type: none"> The PCT reported an underspend of £10.502 million against its RRL of £942.640 million.
<ul style="list-style-type: none"> To remain within the Capital Resource Limit (CRL) 	<ul style="list-style-type: none"> The PCT reported an underspend of £178,000 against its CRL of £10.589 million.
<ul style="list-style-type: none"> Recover the full cost of provider functions 	<ul style="list-style-type: none"> The PCT reported an over-recovery of costs in relation to its provider function amounting to £57,000.

Going concern

There were no material uncertainties related to events and conditions that may cast significant doubt on the PCT's ability to continue as a going concern. In addition to the points noted above, we noted:

- strong performance against the 2010/11 Cost Improvement Plan (CIP) target; and
- the PCT plans to achieve a surplus in 2011/12.

We concluded that in overall terms the PCT had sufficient resources available to meet its commitments for at least a 12-month period after the date of our audit opinion. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.

Current year position

As at the end of August 2011 the PCT was reporting:

- a cumulative 2011/12 year to date surplus position of £2.591 million, which is on plan;
- an estimated forecast outturn to 31 March 2012 of £6.2 million; and
- an annual cost improvement programme (CIP) of £24,713 million, of which the majority has been identified and withdrawn from budgets.

We will continue to monitor the PCT's financial resilience and performance against budget and against its cost improvement plans as part of our 2011/12 audit.

Internal Controls

Accounting systems and systems of internal control

It is the responsibility of the PCT to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. We review these arrangements for the purposes of our audit of the financial statements and our review of the Statement on Internal Control. Our work identified no significant matters to bring to your attention.

Statement on Internal Control (SIC)

Primary Care Trusts are required by the Department of Health to produce a Statement on Internal Control (SIC), to be included in the financial statements and the Annual Report. The aim of the SIC is to disclose whether the PCT had risk management and review processes, as evidenced by the Department of Health's Assurance Framework, in place for the whole of the period covered by the financial statements.

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 this context.

Annual Report and Summary Financial Statements

The NHS Manual for Accounts requires NHS bodies to publish, as a single document, an annual report and accounts. Auditors are required to review the Annual Report for consistency with the information in the statutory financial statements. We are also required to consider whether the content of the Annual Report meets the requirements set out by the NHS Manual for Accounts and whether the Summary Financial Statements included in the Annual Report are consistent with the PCT's statutory financial statements.

Our work found no areas of inconsistency to report in this context. However, the PCT's processes for preparing and agreeing the Annual Report were not as efficient and effective as they should have been, which led to delays and inefficiencies in its publication. This was, in our view, principally as a result of two factors:

- the PCT did not engage with us until late on in the process; and
- the draft Annual Report appeared not to have been proof read and changes identified by our review were not dealt with effectively. This led to a number of iterations of the document which required a further review after each iteration.

After several iterations of the Annual Report, **we issued an unqualified ('consistent with') opinion on the PCT's Summary Financial Statements on 19 September 2011.**

Use of Resources

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have 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 two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we were not required to reach a scored judgement in relation to these criteria and the Audit Commission did not develop 'key lines of enquiry' for each criteria. Instead, we determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Our responsibilities also require us to consider how East Midlands Specialised Commissioning Group addresses the two key criteria.

In arriving at our conclusion we met with a number of stakeholders of the PCT:

- Director of Finance;
- Director of Contracting, Performance and Informatics;
- Commercial Director, East Midlands Specialised Commissioning Group
- Deputy Director of Primary Care;
- Non-executive Director (Chair of Audit Committee)

We reviewed the documentation provided by the PCT. A number of the key documents are listed below:

- The PCT's Strategic Operating Framework;
- QIPP Progress Report to March 2011 PCT Board highlighting progress against savings targets and a pipeline of projects for future consideration;
- QIPP System Plan identifying saving requirements of approximately £24.713 million for 2011/12 across a range of themes including:
 - Demand management;
 - Management costs;
 - Prescribing; and
 - Continuing Care.

- A range of Board Documents confirming a continued focus on the development of ideas for cost savings and efficiency targets, for example:
 - Transformation Fund; and
 - LLR Cold Climate Work.
- Details of contract monitoring meetings with University Hospitals Leicester NHS Trust highlighting a joined-up approach to the improvement of cost and activity information, accurate clinical coding and addressing contract variations; and
- Documentation to support key strategic health outcome priorities, for example:
 - Local Operating Plan scoring and reporting to Board, setting out the commissioning intentions;
 - Continuing Care cost control report to Board;
 - Castle Donington Practice review of Practice based Commissioning; and
 - Transforming Community Services procurement reports.

As identified in our Audit Plan we also focused attention on a number of specific areas of the PCT's activities from a value for money perspective:

Transforming Community Services 'TCS'

On 1 April 2011 the PCT transferred its community services to a number of local providers including Leicestershire Partnership Trust and Derbyshire Community Health Services. In fulfilling our Use of Resources responsibility we considered the steps taken by the PCT to prepare for and manage these transfers. In line with guidance issued to us by the Audit Commission we particularly focused upon the steps taken by the PCT to secure financial resilience and value for money in respect of these transfers. In undertaking our work we have:

- maintained an ongoing dialogue with the lead director (the former Director of Finance for Leicester City PCT); and
- reviewed supporting evidence and relevant minutes of meetings.

Our work identified no issues regarding the PCT's arrangements to transfer the services to receiving bodies. In reaching this conclusion we considered the steps taken by the PCT to manage risks associated with the TCS transfer effectively. The PCT faces additional challenges in 2011/12 to restate its financial statements in line with merger accounting standards and we will be reviewing this work early in the audit cycle to facilitate early and effective feedback.

Clinical Commissioning Groups (CCGs)

The PCT has made significant progress in addressing the requirements of the White Paper which will see the transfer of commissioning responsibilities from PCTs to Clinical Commissioning Groups (CCGs), which have developed from the planned arrangements formerly referred to as GP consortia.

Three CCGs are currently proposed within Leicester, Leicestershire and Rutland: the three CCGs are called Leicester City, West Leicestershire, and East Leicestershire and Rutland. The CCGs are broadly based on geographical areas and serve broadly similar population sizes. Each consortium has a GP chair who, in all three cases, has had experience of working on the PCT's Professional Executive Committee.

At this point in the process we have identified no particular areas for concern.

Review of collaborative arrangements with Leicester City PCT

In October 2010 a new joint executive team was established to lead Leicestershire County and Rutland PCT and Leicester City PCT, as part of the requirement for PCTs to form into geographical clusters. We have kept a watching brief over developments, discussing them at different times with the Chief Executive, Director of Finance and members of the Audit Committee, in part to confirm that whilst the two PCTs are working together effectively at all levels, the need to recognise that the two PCTs remain as separate statutory entities is being protected and respected.

Our observation at meetings of the (Leicestershire County and Rutland PCT) Audit Committee is that Non-Executive Directors have played a very significant role in this process, in ensuring that the governance arrangements for the individual PCTs are appropriate whilst seeking to ensure that the potential benefits from joint working across the two organisations are fully realised.

Use of Resources Conclusion

Based on the findings of all our work we concluded that you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We therefore issued an **unqualified conclusion** on the PCT's arrangements for its Use of Resources on 10 June 2011.

Payment by Results (PbR) Data Assurance Framework

The Audit Commission is continuing with its PbR data assurance framework. In 2010/11, the Audit Commission required us to undertake phase 1 of a review of whether the PCT's arrangements to avoid poor quality data being used for PbR contracting were appropriate. This work was carried out in April 2011 and we identified no significant matters to report.

Summary of Recommendations

During the course of our audit work we have made a number of recommendations to the PCT. These have been discussed and agreed with management. None of these recommendations are significant enough to warrant reporting in this letter. However, we will continue to report to the PCT's Audit Committee on the PCT's progress in implementing the agreed actions in response to the recommendations that we have made.

Issues relevant to our audit in 2011/12

Since we concluded our audit of the 2010/11 financial statements in June 2011, the PCT has continued to undergo significant change, not least as part of the Leicester, Leicestershire and Rutland PCT cluster in the structure of its Board and committees and the sharing of non-executive directors. The PCT continues to face significant challenges in achieving financial balance whilst establishing and supporting the development of Clinical Commissioning Groups. The delayering of teams throughout the PCT provides additional challenges to the PCT in that fewer staff are in post to respond to any new risks as they arise.

In addition, over recent months there has been considerable public interest and publicity surrounding a development of healthcare facilities at St Luke's Hospital in Market Harborough. Indeed we have received correspondence ourselves from a local councillor on this issue. As part of our audit responsibilities we have held discussions with a number of Executive and Non-Executive members of the PCT Board and attended specially convened meetings of the Audit Committee where this matter has been considered. We have also reviewed a number of key reports and documents. We have concluded that, from our perspective as external auditors to the PCT, there are no formal audit actions required or issues to report in relation to this matter at this time.

We will continue to keep in close contact with the PCT on developments on these issues and will consider them as part of our 2011/12 audit as appropriate.

