

Government and Public Sector

October 2009

Wolverhampton City PCT

2008/09 Annual Audit Letter (DRAFT)

The Board
Wolverhampton City PCT
Coniston House
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Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. This letter will be presented to the Audit and Governance Committee at its meeting on 27 October 2009 when we will be available to discuss any of the issues raised and respond to any questions that you may have on our work.

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 2008/09.

Yours faithfully

PricewaterhouseCoopers LLP
Encs

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

In April 2008 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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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Wolverhampton City PCT (“the PCT”) that is accessible for the Board and other interested stakeholders.

We have already reported the detailed findings from the 2008/09 audit work we have completed to date to those charged with governance, which in the case of the PCT has been agreed as being the PCT’s Audit and Governance Committee, in the following reports:

- Report on the results of our audit of the 2008/09 financial statements under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260.
- Audit opinion on the 2008/09 financial statements, incorporating our conclusion on the PCT’s use of resources.
- Report on the results of the PCT’s restatement of its 2008/09 opening Balance Sheet under the requirements of the International Financial Reporting Standards (IFRS).

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

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 an opinion on the financial statements;
- reviewing the PCT’s Statement on Internal Control;
- 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 2008/09 audit work has been undertaken in accordance with the Audit Plan that we presented to the PCT’s Audit Committee in September 2008 and updated in January 2009.

Audit findings

Accounts

We audited the PCT's accounts in line with approved Auditing Standards and issued an unqualified audit report on 11 June 2009.

The key issues arising from our audit of the 2008/09 accounts are discussed below.

Financial performance

PCTs are required to report on three financial performance targets in their financial statements. Of the three financial performance targets the Department of Health (DH) places greater emphasis on the achievement of operational financial balance.

The PCT's performance in relation to these financial performance targets is summarised in the table opposite.

Performance target	2008/09 actual/reported	Achieved
To achieve operational financial balance by remaining within Revenue Resource Limit (RRL)	The PCT reported an underspend of £24.874 million against its RRL of £409.362 million. This was in line with the control total target of £25 million set for the PCT by West Midlands Strategic Health Authority.	✓
To remain within the Capital Resource Limit (CRL)	The PCT reported an underspend of £1.447 million against its CRL of £5.325 million.	✓
Recover the full cost of provider functions	The PCT reported an over recovery of costs in relation to its provider function amounting to £1.338 million.	✓

Financial Standing

The PCT effectively managed its financial position during 2008/09 to achieve a planned surplus of £24.9 million.

The PCT is forecasting a surplus of £17.3 million in 2009/10, in line with the control total target set by the West Midlands Strategic Health Authority. There are, however, a number of significant risks to the achievement of the PCT's financial forecasts for 2009/10. The achievement of the PCT's planned surplus is contingent upon the effective management of contract over-performance within acute trusts, the delivery of a challenging Strategic Services Development Plan (SSDP) and the management of the impact of new tariff arrangements (HRG version 4).

Qualitative aspects of the audit

The PCT met the DH's deadline to submit its draft accounts for audit by 23 April 2009. Submission of the audited accounts to the DH was required by 12 June 2009 and as we reported earlier in this report we issued an unqualified audit report on 11 June 2009.

This was our first year as the PCT's auditors and there were inevitably areas where we jointly identified that improvements to the accounts and audit process could be made. We are keen to work with the PCT to achieve further improvements in the accounts and audit process going forward. We held a debrief meeting with the PCT's Finance Team earlier this month to jointly consider ways in which we can further improve the accounts and audit process in future years and together we will be progressing with actions planned to achieve these improvements.

Unadjusted misstatements

We identified only one unadjusted item during our audit work which we reported to the PCT's Audit and Governance Committee in our ISA (UK&I) 260 report. This unadjusted item, amounting to £392,000, related to the PCT's accounting treatment for accrued continuing care expenditure.

After considering our ISA (UK&I) 260 report, the PCT's Audit and Governance Committee concluded that the item was not material to the truth and fairness of the accounts and decided not to adjust the accounts for this

item. We considered the qualitative and quantitative aspects of this unadjusted item and concluded that, if not adjusted, this would not adversely impact on our audit opinion. If adjusted, this misstatement would have had no impact on the PCT's performance against its Revenue Resource Limit or on the value of the PCT's net assets.

Adjusted misstatements

As might be expected, our audit process identified some issues, both of content and presentation, where we believed amendments to the accounts would enhance their accuracy and usefulness to the reader. We felt that some of these were significant enough to justify an amendment to the accounts, and the PCT agreed to process the amendments accordingly.

These adjustments varied in both value and nature, with many simply being misclassifications, or amendments to disclosure notes. The adjusted misstatements decreased the PCT's underspend against its Revenue Resource Limit for the year by £107,000.

We identified one significant misstatement during the audit process which the PCT subsequently adjusted. This related to the PCT's plans to dispose of a number of buildings over the next five years, in accordance with its Strategic Services Development Plan (SSDP).

In recognition of reductions in the useful lives of these buildings, in 2007/08, the PCT impaired their asset values. The PCT's 2007/08 accounts recorded a total impairment of £8.558 million in the values of these buildings. The majority of the impairment (£6.863 million) was charged against the Revaluation Reserve. The remainder (£1.695 million) was charged against the PCT's Revenue Resource Limit.

In 2008/09, the PCT obtained a professional valuation of its assets. As part of the valuation, buildings identified for future disposal were revalued by the District Valuer (DV) on the basis of depreciated replacement cost and using an estimated useful economic life of 30 years. As a consequence, the PCT's draft accounts recorded an upwards movement in the valuation of these buildings between 1 April 2008 and 31 March 2009 totalling £5.42 million.

In order to ensure the PCT's 2008/09 accounts reflected the PCT's ongoing plans to dispose of the buildings identified in the SSDP, and therefore a more appropriate year end valuation than generated by the DV's most recent revaluation, we discussed, and agreed, with the Director of Finance, an alternative approach to the calculation of valuations for these buildings as at 31 March 2009.

The PCT subsequently reversed the increases in asset values arising from the DV's valuation for these buildings. To derive a more appropriate valuation, the PCT applied HM Treasury indices, which reflected expected downwards movements in property values during 2008/09, to the net asset values of these buildings as at 31 March 2008. As a result, the PCT recorded a further impairment in asset values in the 2008/09 accounts amounting to £1.044 million. The impairment impacted upon the PCT's performance against its RRL.

Whilst we accepted the PCT's revised accounting treatment for these assets in 2008/09 as the most appropriate in the circumstances, we recommended that the PCT should hold early discussions with the DV prior to the planned 2009/10 revaluation of the PCT's assets on a Modern Equivalent Asset Value in Use basis (MEAV) to ensure that the SSDP buildings are valued on the most appropriate basis going forward.

Use of Resources

Since April 2009, the Audit Commission has been implementing a Comprehensive Area Assessment (CAA), jointly with the other public service inspectorates. The audit year 2008/09 is a year of transition to CAA.

As part of this new assessment regime, in 2008/09, we were required by the Audit Commission to assess the PCT's use of resources in relation to the following three areas:

- Managing finances.
- Governing the business.
- Managing resources.

Our assessment of these areas was based on revised Key Lines of Enquiry (KLoEs) and focused more on the PCT's achievements, outputs and outcomes rather than the PCT's processes and procedures, which had been the primary focus under the previous use of resources regime, known as ALE.

KLoEs were scored as follows:

- | | |
|---|--|
| 1 | – failure to meet minimum requirements – inadequate performance; |
| 2 | – meets only minimum requirements – performs adequately; |
| 3 | – exceeds minimum requirements – performs well; or |
| 4 | – significantly exceeds minimum requirements – performs excellently. |

We reported our provisional scores for each Use of Resources KLoE, as part of the presentation of our ISA (UK&I) 260 report to the Audit and Governance Committee in June 2009. Following further evidence being provided by the PCT in support of its use of resources arrangements and the completion of the national moderation of use of resources scores, led by the Audit Commission, we revisited our scores for each individual KLoE. As a result several of the PCT's individual KLoE scores increased from '2' to '3'. The PCT's final scores for each use of resources theme were as follows:

Theme	Theme Score
Managing finances	3
Governing the business	2
Managing resources	3

Individual scores for each KLoE underpinning the PCT's theme scores are shown in Appendix A.

The PCT's theme scores confirm that the PCT is performing well in relation to its use of resources. The PCT was able to demonstrate to us that it is achieving better outcomes for its stakeholders as a result of actions taken to improve its financial arrangements, and around the control of the use of its resources.

We will be reporting separately to the Audit and Governance Committee further details in support of our assessment of the PCT's Use of Resources scores.

The results of our 2008/09 assessment will feed into the first results of CAA which the Audit Commission will report on in autumn 2009.

Conclusion on Use of Resources

We were required to conclude on the adequacy of the PCT's arrangements for economy, efficiency and effectiveness in its Use of Resources as part of our 2008/09 opinion. In reaching this conclusion, we were required to have regard to the results of our assessment of each of the CAA KLoEs (as set out in Appendix A).

A score of level two or higher for each of the KLoEs would normally result in an assessment of 'adequate' arrangements for the purposes of forming our use of resources conclusion.

We were not required to assess KLoE 2.1 (which focuses on the way in which the PCT commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money) as part of this year's CAA assessment. However, we were required to consider this KLoE as part of our use of resources conclusion.

As directed by the Audit Commission, our consideration of the PCT's performance in relation to this KLoE was based principally on the results of the PCT's World Class Commissioning (WCC) assessment. The PCT's average score for the relevant competencies from the World Class Commissioning assessment was 1.7. The Audit Commission issued guidance which suggested that auditors should consider the need to issue an 'except for' use of resources conclusion for PCT's with average scores between 1.5

and 1.7 for the above competencies.

Having carefully considered the guidance from the Audit Commission, together with the fact that the PCT had demonstrated good progress in acting upon the matters identified by the WCC assessment team in relation to the 6 WCC competencies identified by the Audit Commission, we concluded that we could PCT has demonstrated good progress in acting upon the matters identified by the WCC assessment team in relation to the competencies listed above.; issue an unqualified conclusion on the PCT's use of resources. In our use of resources conclusion we reported that we were satisfied that, in all significant respects, the PCT had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

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. As auditors, 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 did not identify any significant issues with respect to the PCT's accounting systems or systems of internal control.

Statement on Internal Control (SIC)

The PCT's Statement on Internal Control (SIC) disclosed whether the PCT had risk management and review processes, as evidenced by the DH's Assurance Framework, in place for the whole of the period covered by the Accounts.

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 also reviewed whether the SIC was consistent with the PCT's declaration on core standards made to the Healthcare Commission (now the Care Quality Commission).

We found no areas of concern to report in this context.

Summary financial statements

The PCT was required to produce an Annual Report, including summary financial statements, in accordance with the requirements of the DH's Manual for Accounts.

We reviewed the Annual Report against the requirements set out in the DH's Manual for Accounts. We concluded that the Annual Report was compliant with the requirements of the Manual and its content was not inconsistent with our knowledge and understanding of the PCT.

Conversion to IFRS

The Treasury's 2008 budget statement, published in March 2008, announced that annual financial statements of government departments and other public sector bodies, including the NHS, will, from 2009/10, be prepared using International Financial Reporting Standards (IFRS).

During 2008/09 the DH published key milestones for the conversion to IFRS, including the need for PCTs to submit a restated IFRS opening balance sheet as at 1 April 2008 by 31 December 2008. The PCT met this deadline.

In February 2009, we carried out a review of the processes adopted by the PCT in preparing its IFRS opening balance sheet using a methodology developed by the Audit Commission. This work was mandated by the Audit Commission and was additional to the work we planned to undertake in 2008/09 as set out in our 2008/09 Audit Plan.

The Audit Commission developed a 'specified procedures' approach to the auditors' review of the restated opening balance sheet. The approach focused on the arrangements NHS bodies had put in place to restate their opening balance sheets.

In accordance with this methodology, we were required to assess the PCT's arrangements using a traffic light system, as described below:

- **'Green'** – Adequate arrangements appear to be in place for the Balance Sheet area to provide not materially misstated amounts for the Balance Sheet restatement.
- **'Amber'** – Adequate arrangements are in place in some respects for the Balance Sheet area to provide not materially misstated amounts for the Balance Sheet restatement. Evidence that the body is taking forward areas where arrangements need to be strengthened.
- **'Red'** – The body's arrangements are generally inadequate to provide not materially misstated amounts for the Balance Sheet restatement.

We were also required to assess each line of the PCT's balance sheet in accordance with this scoring system, following which we were required to give an overall assessment of the PCT's arrangements, based on our judgement of performance across all of the balance sheet areas.

The results of our assessment were reported to the PCT's Audit and Governance Committee in April 2009. Our overall assessment of the arrangements adopted by the PCT in preparing its opening IFRS balance sheet was 'amber'. This was principally a reflection of the risk attached to the restatement of the PCT's LIFT schemes under IFRS accounting requirements, given uncertainty as to the outcome of the DH's guidance on the accounting treatment for LIFT schemes at the time of our review.

However, in overall terms, we concluded that the PCT had made positive progress in addressing the requirements of IFRS implementation, and we reported that the PCT was in a reasonable position to manage the overall transition to IFRS effectively.

Our work on the PCT's opening IFRS balance sheet as at 1 April 2008 was limited to an assessment of the processes adopted by the PCT.

We recently completed a review of the adjustments made to the PCT's 2008/09 accounts as part of the ongoing transition to IFRS. This work forms part of our 2009/10 Audit Plan and the results will be reported to the PCT's Audit and Governance Committee later in the year.

Payment by Results (PbR) Clinical Coding Audits

In 2008/09, the Audit Commission continued with its rolling programme of clinical coding audits under the PbR assurance framework. This work was undertaken by the Audit Commission under s3(9) of the Audit Commission Act 1998. In 2008/09 this programme included the following work undertaken at the Royal Wolverhampton Hospitals NHS Trust but paid for by the PCT:

- an audit of a sample of admitted patient care data; and
- an assessment of the arrangements and testing of a sample of outpatients data.

Auditors are required to consider the impact of any matters arising from the clinical coding audits on the conclusions reached as part of the audit.

The results of the audit of inpatient data concluded that *“compared with the national results from last year, the Trust is in the best performing 25% of trusts where the lowest percentage reflects the smallest amount of HRGs that are incorrect and therefore the smallest number of errors in payments.”*

The results of the audit of outpatient data concluded that *“the Trust’s data quality arrangements overall were adequate meeting the minimum requirements for all KLOEs. There were some examples of performing well in some areas. For example the Trust consults effectively with local commissioners and automated validation takes place, and reconciliation reports are produced.”*

We discussed the results of the Audit Commission’s work at the Royal Wolverhampton Hospitals NHS Trust with representatives from the Trust and the PCT. We found no areas of concern to report in this context.

Targeted audit work

We agreed with the Director of Finance that we would carry out an early assessment of the PCT’s performance in relation to its use of natural resources. This element of the CAA was excluded from this year’s assessment for PCTs, but will form part of the assessment in 2009/10.

This work has recently been completed and our findings will be reported separately to the PCT’s Audit and Governance Committee in due course.

Annual summary of recommendations

We provide each year an annual summary of recommendations to the Director of Finance and his team. This is also a requirement of the Audit Commission’s Standing Guidance for Auditors.

The annual summary includes all the recommendations we have raised with regard to the reports noted previously. We have also undertaken work as part of our 2008/09 audit to assess the extent to which recommendations raised by your previous auditors in 2007/08, have been implemented.

We are working with the PCT to agree timescales, responsibilities and actions for the 2008/09 annual summary of recommendations. Delivery of these will be managed by the Director of Finance and his team, and any significant issues relating to this process will be raised with the Audit and Governance Committee.

There are no further matters to report to you with regard to the progress made on the annual summary of recommendations.

Appendix A – Use of Resources KLoE Scores

Theme	Key Line of Enquiry	Score
Managing Finances	1.1 - The PCT plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
	1.2 - The PCT has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
	1.3 - The PCT's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2
Governing the Business	2.1 - The PCT commissions and procures quality services and supplies tailored to local needs, to deliver sustainable outcomes and value for money ¹	Note 1
	2.2 - The PCT produces relevant and reliable data and information to support decision making and manage performance	2
	2.3 - The PCT promotes and demonstrates the principles and values of good governance	2
	2.4 - The PCT manages its risks and maintains a sound system of internal control	2
Managing Resources	3.2 - The PCT manages its assets effectively to help deliver its strategic priorities and service needs	3
	3.3 - The PCT plans, organizes and develops its workforce effectively to support the achievement of its strategic priorities	3

¹ KLoE 2.1 was a relevant criterion for our use of resources conclusion which we gave as part of our audit opinion. However, we were not required to score it for the Audit Commission's CAA assessment.

