

Annual Governance Report

July 2008



Annual Governance Report

Brent Teaching Primary Care Trust

Audit 2007/08

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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:

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- any third party.

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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Background

- 3 The PCT has been in a process of 'turnaround' since November 2006 to recover a large, previously unreported, deficit. The deficit at the start of the 2007/08 financial year was £25m. As part of this turnaround process there have been significant changes in both the non executive members and senior management. The PCT has also been subject to an independent review from the Strategic Health Authority (the 'Michael Taylor' report) which has, along with other audit reports during the period, delivered some robust messages.
- 4 Significant inroads have been made into improving the PCT's governance and financial management arrangements. However, there is still much to do and it is not unusual for an organisation that is faced with such issues to initially uncover further problems as it seeks to understand and improve its current arrangements.
- 5 Although the majority of key management posts have now been permanently filled, the PCT is currently operating with a significant number of interim staff and there remains a high level of vacancies. Capacity is stretched and there has been some loss of historical organisation knowledge as new staff are appointed.
- 6 It is against this background that we report to those charged with governance.
- 7 As a result it was anticipated, and communicated to the Audit Committee, that we believed it would prove difficult to meet the earlier deadline for submission of audited accounts of 23 June. Although this has proved to be the case, we acknowledge the efforts of the PCT staff who have had dealt with a large number of audit queries.

Financial statements

- 8 Inevitably, the PCT's capacity has impacted on its ability to deliver a full set of financial statements and supporting working papers by the due date (1 May 2008). The accounts were produced one week late on (9 May) but were incomplete. Some disclosure notes were missing and the statements were not supported by a full set of supporting working papers.

- 9 Access to the main accounting system has been logistically difficult. Audit trails have been difficult to follow and the PCT has not always been able to respond adequately to the large number of audit queries arising from our work. Consequently, some audit work has yet to be concluded and we will not be in a position to issue our audit opinion by 23 June as required by the Department of Health.
- 10 Our audit was informed by a risk assessment which was communicated to the Audit Committee at the commencement of the audit. Within this report we re-state those risks and provide an update of our work against them.

Value for money

- 11 We are required to conclude whether the PCT put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. Our judgement is informed by Auditor Local Evaluation work, our work on Better Commissioning, and knowledge ascertained from other sources.
- 12 Our assessment against the 12 value for money criteria concluded that for 2007/08 the PCT has met three of the criteria but weaknesses existed in the remaining nine. Therefore, we expect to issue an 'adverse' value for money conclusion stating that the PCT did not have adequate arrangements for securing economy, efficiency and effectiveness. Our draft opinion VFM conclusion is on Appendix 4.
- 13 The PCT should note that the conclusion covers the 2007/08 financial year and therefore does not take into account any improvements that relate to the 2008/09 financial year. These will be considered as part of our Use of Resources assessment and VFM conclusion in 2008/09.

Certificate

- 14 The previous external auditors delayed issuing a certificate notifying completion of the audit of accounts for 2006/07 in accordance with the Code of Audit Practice due to the publication of the independent review by the Strategic Health Authority. We will issue our certificate on the 2007/08 audit when the certificate for the 2006/07 audit has been issued.

Next steps

- 15 We ask the Audit Committee to:
 - note the progress on the audit;
 - consider the matters raised in the report before approving the financial statements;
 - make arrangements for those charged with governance to consider any further issues arising from our audit before we issue our opinion;

- make arrangements for the representation letter to be considered by those charged with governance and signed on behalf of the PCT before we issue our opinion; and
- agree the actions proposed to date in the attached action plan.

Action Plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|---|---|--|-----------------------------------|--------|--|----------|
| Financial statements - Accounting policies and financial reporting | | | | | | |
| 8 | R1 Notify the Department of Health that the accounts deadline will not be met. | 3 | Director of Finance & Performance | Yes | Actioned | 13/06/08 |
| 9 | R2 Ensure a complete set out accounts along with a comprehensive set of working papers is provided at the start of the audit. | 3 | Financial Controller | Yes | Detailed plan to be agreed in advance with external audit. | 31/12/08 |
| 9 | R3 Strengthen controls concerning the matching of expenditure to the correct financial year. | 2 | Financial Controller | Yes | | 31/03/09 |
| 9 | R4 Establish a procedure for capturing all related party interests and assessing whether related party transactions need to be disclosed. | 2 | Financial Controller | Yes | Quarterly review to be put in place. | 30/06/08 |
| 9 | R5 Review procedures for calculation of the Better Payment Practice Code measures. | 2 | Financial Controller | Yes | Actioned | 13/06/08 |
| 9 | R6 Ensure accounts working papers include a clear breakdown of the 'adjustments to balances' line of the FMA forms. | 2 | Financial Controller | Yes | | 30/06/08 |
| 9 | R7 Obtain a formal valuation to support the PFI deferred asset. | 2 | Financial Controller | Yes | | 30/09/08 |

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|---|--|--|-------------------------------------|--------|----------|----------|
| Financial statements - Errors in the financial statements | | | | | | |
| 10 | R8 Develop a procedure for identification and subsequent elimination from the accounts of internal recharges. | 3 | Financial Controller | Yes | | 30/09/08 |
| Financial statements - Material weaknesses in internal control | | | | | | |
| 11 | R9 Establish a process for ensuring all information technology assets can be traced to the asset register. | 1 | Director of Finance & Performance | Yes | | 30/09/08 |
| 11 | R10 Refresh the governance arrangements of the pooled budget. | 1 | Director of Strategic Commissioning | Yes | | 30/09/08 |
| Value for money | | | | | | |
| 12 | R11 Develop an action plan covering the areas for improvement identified in our Auditor Local Evaluation work. | 3 | Director of Finance & Performance | Yes | | 15/07/08 |
| 12 | R12 Implement all Internal Audit recommendations to ensure no 'limited assurance' opinions are received. | 3 | Director of Finance & Performance | Yes | | Ongoing |

Financial statements and Statement on Internal Control

- 16 The PCT’s financial statements and Statement on Internal Control are important means by which the PCT accounts for its stewardship of public funds. As directors you have final responsibility for the financial statements and Statement on Internal Control. It is therefore important that you consider our findings before you adopt the financial statements and the Statement on Internal Control.
- 17 In planning our audit, we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 18 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the PCT’s accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 19 In planning our audit, we identified key areas of judgement and audit risk that we have considered as part of our audit.

| Accounts planning risks | Audit response |
|--|---|
| The interim audit and internal audit work revealed a weak internal control environment during the year. | We have not relied upon internal controls and conducted a substantive approach to the audit which requires testing samples of the PCT's transactions. |
| The PCT changed its accounting policy on partially completed spells. | We have tested the accrual for partially completed spells as part of the NHS 'agreement of balances' exercise. |
| The previous year's accounts contained large balances in respect of disputed balances in contingent liabilities. | We have reviewed the contingent liabilities and provisions for appropriate classification. |
| There is a large amount of debt in the accounts which exceeds 90 days of age. | We have reviewed the bad debt provision in the accounts. |
| Suspense accounts have not been regularly cleared during the year. | We have reviewed suspense accounts for clearance at year-end. |

| Accounts planning risks | Audit response |
|---|---|
| Internal Audit reported that processing of leaver forms by HR was slow. | We have specifically tested leavers and confirmed they have been processed on the payroll system. |
| At the time of planning of our testing strategy, Internal Audit had been unable to conclude their work on fixed assets. | We have tested fixed asset balances. |
| The processes for calculating accruals for periodic expenditure (eg utilities) from the PEPS system are weak. | We have tested accruals. |
| We did not receive any third party assurance from the GP payment system operated by Harrow PCT. | We have tested GP payments expenditure. |

Draft representation letter

20 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the PCT where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and

- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

21 Appendix 1 contains an example of the draft of the letter of representation we expect to seek from you.

Accounting policies and financial reporting

22 We consider the qualitative aspects of your financial reporting and report to you our significant findings. The first draft of the financial statements provided for audit was provided one week late and omitted three significant disclosures:

- the Statement on Internal Control;
- note 4.3: Operating leases; and
- note 20: Related party transactions.

23 The quality of working papers provided at the commencement and during the audit, is in need of improvement. In many cases working papers did not clearly support the accounts and required further explanations. For example, working papers in respect of staff costs and remuneration report, fixed asset impairments and the prescribing expenditure accrual were not sufficient.

24 Consequently there have been a high number of audit queries (170 to date). Responses have not always fully addressed the initial query and we have had to raise further queries to obtain further clarification. These issues have meant queries have taken longer than expected to resolve. Consequently, a significant amount of audit work has yet to be concluded and we will not be in a position to issue our audit opinion by 23 June as required by the Department.

Recommendations

R1 Notify the Department of Health that the accounts deadline will not be met.

25 The qualitative issues we have identified so far, and want to raise with you are detailed below:

| Issue | Resolution |
|--|--|
| The draft statement on internal control did not contain sufficient information in respect of non-compliance with the Healthcare Commission core standards. | The statement on internal control has now been revised to contain sufficient information. |
| Sample tests of expenditure has identified errors in matching expenditure to the correct financial period: <ul style="list-style-type: none"> Four transactions with a value of £141,000 related to 2006/07; and One transaction with a value of £82,500 related to 2008/09; There is uncertainty whether capital additions of £101,000 related to the 2006/07 or 2007/08 accounts. | We have applied the error rate found from our testing in this area to the whole population of transactions to assess the total level of error in the financial statements (known as extrapolation). We have assessed that the impact is not material and are reporting the issue to you to consider the action you should take to strengthen the Trust's creditors system. |

| Issue | Resolution |
|--|---|
| <p>The related party transaction note was not provided at the commencement of the audit. When provided the process for capturing all related parties was found to be inadequate, and therefore related party transactions may have been excluded.</p> | <p>A revised related party transaction note has now been received.</p> |
| <p>Errors have been identified in the Better Payment Practice Code measures. Internal recharges have been included within the calculations and counted as paid within 30 days, and the start date for recording the period taken to pay has been taken as the authorisation date rather than the receipt date.</p> | <p>A disclosure note is to be added to the financial statements in note 6 reflecting the uncertainty around the figures used.</p> |
| <p>The FMA forms (the proformas on which the PCT's accounts are submitted to the Department of Health) contain a sheet disclosing income and expenditure analysed by individual NHS organisation type. It is a requirement that the PCT agree these balances with the counter party. However, it is acceptable to include accruals dated 1 April to 18 April within an 'adjustment to balances' line. The PCT had £3,935,000 in this line but when audit queried it officers were initially unable to breakdown this figure. In effect, this line was acting as a 'balancing item' until reconciled and allocated to the income and expenditure with the specific NHS organisations.</p> | <p>The PCT has now re-analysed the agreement to balances line and adjusted the income and expenditure disclosures with individual organisations accordingly. The adjustment to balances line is now £68,000. It should be noted that this only impacts on the FMA forms (on which we issue a separate opinion) and not the accounts.</p> |
| <p>The PCT has a PFI arrangement in relation to the Willesden Healthcare Centre. The contract runs until 2035 and over that period the PCT is building up a 'deferred asset' with an eventual value of £20 million. As at 31 March 2008 the value of the asset in the accounts is £925,000. However, the PCT has been unable to support the final value of the PFI asset by a formal valuation.</p> | <p>As the previous external auditors did not challenge the accounting treatment of the PFI, and the value of the deferred asset is not currently material, we can conclude this is not an opinion issue for this year. However, we have included specific representations in the management letter of representation to confirm that the contract conditions have not changed since the previous auditor opinion.</p> |

| Recommendation |
|---|
| <p><i>R2 Ensure a complete set out accounts along with a comprehensive set of working papers is provided at the start of the audit.</i></p> |
| <p><i>R3 Strengthen controls concerning the matching of expenditure to the correct financial year.</i></p> |
| <p><i>R4 Establish a procedure for capturing all related party interests and assessing whether related party transactions need to be disclosed.</i></p> |
| <p><i>R5 Review procedures for calculation of the Better Payment Practice Code measures.</i></p> |

R6 Ensure accounts working papers include a clear breakdown of the 'adjustments to balances' line of the FMA forms.

R7 Obtain a formal valuation to support the PFI deferred asset.

Errors in the financial statements

- 26 Management has agreed to adjust the financial statements for the errors identified in Appendix 2. We have not identified any errors (other than those of a trivial nature) that management has declined to correct.
- 27 One adjustment detailed in Appendix 2 relates to a failure to eliminate internal recharges with a value of £1,524,000 from income and expenditure. Internal recharges are transactions between departments within the PCT and therefore do not represent actual income and expenditure. It is important that the PCT develops a robust procedure for identifying such internal recharges and eliminating them from the accounts.
- 28 It should be noted that none of the identified errors impacts on the PCT's underspend against the revenue resource limit.

Recommendations

R8 Develop a procedure for identification and subsequent elimination from the accounts of internal recharges.

The audit report

- 29 From our work to date, we have not identified any issues which would cause us to issue a modified audit report. We will keep those charged with governance informed if there is any change to this position as the audit progresses. Appendix 3 contains an example copy of an unmodified report.

Material weaknesses in internal control

- 30 We have identified weaknesses in the design or operation of an internal control that might result in an error in your financial statements which have not been reported to you. Alternatively, these weaknesses are symptomatic of broader weaknesses in your control environment. These weaknesses are set out below.

| Issue | Resolution |
|---|--|
| The asset management system does not retain an audit trail sufficient to verify the existence and completeness of information technology fixed assets. This weakness only applies to information technology assets. | We are currently assessing the impact of this issue on the financial statements. |

| Issue | Resolution |
|---|---|
| <p>The PCT does not obtain a memorandum account from the London Borough of Brent to confirm the income and expenditure of the pooled budget as disclosed in note 24. Instead, the PCT estimates the Borough's contribution and the expenditure of the pool. Contributions to the pool are not formally agreed and the contract in relation to this arrangement (dated 2002) only includes the schedule of payments for the first year of operation.</p> | <p>As the pooled budget is not material (expenditure of £0.5 million). However, we are reporting the issue to the Audit Committee for inclusion in the action plan.</p> |

| Recommendation |
|--|
| <p><i>R9 Establish a process for ensuring all information technology assets can be traced to the asset register.</i></p> |
| <p><i>R10 Refresh the governance arrangements of the pooled budget.</i></p> |

- 31** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

- 32** At this stage, there are no other matters that auditing standards require me to report to you.

Value for money

- 33 We are required to conclude whether the PCT put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission. Our conclusion is informed by our work on the Auditor's Local Evaluation, local risk work, and knowledge ascertained from other sources such as Internal Audit.
- 34 Our interim Auditor's Local Evaluation scores have been concluded, with scores of '1' (below minimum requirements) in each of the areas assessed (Financial Management, Internal Control and Value for Money). We have yet to formally score the Financial Reporting and Financial Standing themes but have done sufficient work to draw our value for money conclusion.
- 35 We identified two areas of local risk work as part of the 2007/08 audit plan: Better Commissioning and Financial Management. The Better Commissioning report has been finalised and made a number of recommendations to strengthen arrangements. An action plan has been agreed, and the findings of this report have been taken into account in forming our value for money conclusion.
- 36 The Financial Management work was delayed due to staff turnover and the publication of the Strategic Health Authority independent review (the 'Michael Taylor report'). As a result of this the scope of the work was amended during the year and fieldwork is ongoing. However, we have conducted sufficient work as part of our Auditor Local Evaluation to inform our value for money conclusion.
- 37 Appendix 4 sets out our assessment against the 12 criteria. We have concluded that during the 2007/08 financial year the PCT was compliant with three of the criteria but weaknesses existed in the remaining nine. As a result we will be issuing an 'adverse' value for money conclusion stating that the PCT did not have adequate arrangements for securing economy, efficiency and effectiveness. Appendix 3 sets out the proposed wording for this conclusion.

| <i>Recommendation</i> |
|---|
| <i>R11 Develop an action plan covering the areas for improvement identified in our Auditor Local Evaluation work.</i> |
| <i>R12 Implement all Internal Audit recommendations to ensure no 'limited assurance' opinions are received.</i> |

Formal audit powers

38 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public; and
- a duty to make a referral to the Secretary of State where we believe the PCT:
 - has or is about to make a decision that would involve incurring unlawful expenditure; or
 - has or is about to make a decision that is unlawful and likely to lead to a loss.

39 We are monitoring the PCT's response to the Strategic Health Authority independent review. The PCT has introduced processes to ensure improvements are sought, but there remains work to do ensure improved arrangements become embedded. Given progress made at this stage we are not intending to exercise formal audit powers but we continue to keep the position under review.

Independence

- 40 The Code of Audit Practice and the APB’s Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 41 We confirm that we comply with the APB’s Ethical Standards, that we are independent and that our objectivity is not compromised.
- 42 We communicate to you:
- any relationships between us and the PCT, its directors and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the PCT

- 43 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 44 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 1 Audit fees

| | Plan 2007/08 | Actual 2007/08 |
|--|---------------------|-----------------------|
| Financial statements and Statement on Internal Control | 135,000 | 165,000 |
| Value for money | 65,750 | 65,750 |
| National Fraud Initiative | 250 | 250 |
| Total audit fees | 201,000 | 231,000 |
| Other work - payment by results | 35,500 | 35,500 |

- 45 Due to the difficulties completing the audit of the financial statements there will be additional fee for audit work. Our initial assessment is that the additional fee will be £30,000.

Our arrangements to ensure independence and objectivity

- 46 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

Table 2 Arrangements to ensure independence and objectivity

| Area | Arrangements |
|-----------------------|--|
| Independence policies | <p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality. |
| Code of Conduct | <p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff has to comply with ethical guidance issued by their relevant professional bodies.</p> |
| Confidentiality | <p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p> |

Appendix 1 – Example Letter of Representation

To: Mrs White
District Auditor
Audit Commission
Millbank Tower
Millbank
London
SW1P 4HQ

Brent Teaching Primary Care Trust - Audit for the year ended 31 March 2008

We confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Brent Teaching Primary Care Trust, the following representations given to you in connection with your audit of the Primary Care Trust's financial statements for the year ended 31 March 2008.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the NHS Manual for Accounts which give a true and fair view of the financial position and financial performance of the Primary Care Trust and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Primary Care Trust have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Board meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Primary Care Trust.

In all material respects, the expenditure and income recognised in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The Primary Care Trust has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;

- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Board, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Primary Care Trust has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements. *(If adoption of the financial statements and the representation are on the same day this paragraph is not required).*

Specific representations

We require specific representation that in relation to the PFI scheme Willesden Healthcare Centre:

- there were no derogations to the original standard PFI contract;
- there have been no significant changes to the PFI contract since December 2002; and
- there have been no significant changes to the use of the asset from that anticipated in 2002.

We require specific representation that in relation to leases with the BHH LIFT Company Ltd:

- there have been no significant changes to the use of the asset from that originally anticipated.

Signed on behalf of Brent Teaching Primary Care Trust

I confirm that the this letter has been discussed and agreed by the Board / Audit Committee on [date]

Marcia Saunders, PCT Chair

Mark Easton, Chief Executive

Chandresh Somani, Audit Committee Chair

Appendix 2 – Summary of adjusted misstatements

The following misstatement was identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities. Note there is no impact from these adjustments on the PCT's underspend against the revenue resource limit.

| | | Income and Expenditure Account | | Balance Sheet | |
|---|--|--------------------------------|-------------|---------------|-------------|
| Adjusted misstatement | Nature of Adjustment | Dr £000s | Cr £000s | Dr £000s | Cr £000s |
| The 'Board members costs' were understated and 'Staff costs' overstated in note 4.1. | Reclassification of expenditure. | 1,469 | 1,469 | | |
| Re-classification of healthcare expenditure from 'Goods and services from other NHS bodies excluding Foundation Trusts: Healthcare' to 'Goods and services from other Primary Care Trusts: Healthcare' and 'Purchase of healthcare from non-NHS providers' in note 4.1. | Reclassification of expenditure | 2,124 | 2,124 | | |
| Re-classification of expenditure from 'Purchase of healthcare from non-NHS providers' to 'Purchase of healthcare from non-NHS providers' in note 4.1. | Reclassification of expenditure | 1,411 | 1,411 | | |
| Travel and subsistence costs to be moved from 'salaries and wages: permanently employed' to 'salaries and wages: other' in note 5.1. | Reclassification of expenditure | 1,171 | 1,171 | | |
| Internal recharges were not eliminated from 'Commissioning Gross Operating Costs' and 'Commissioning Miscellaneous Income' on the Operating Cost Statement. | Reductions in income and expenditure due to removal of internal recharges. | 1,524 | 1,524 | | |

Appendix 3 – Example Independent Auditor's Report to the Directors of Brent Teaching Primary Care Trust

Opinion on the financial statements

I have audited the financial statements of Brent Teaching Primary Care Trust for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Operating Cost Statement, the Balance Sheet, the Cashflow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service set out within them. I have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Board of Directors of Brent Teaching Primary Care Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of Directors and auditor

The Directors' responsibilities for preparing the financial statements in accordance with directions made by the Secretary of State are set out in the Statement of Directors' Responsibilities. The Chief Executive's responsibility, as Accountable Officer, for ensuring the regularity of financial transactions is set out in the Statement of the Chief Executive's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. I report whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. I report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Operational and Financial Review, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I review whether the Directors' Statement on Internal Control reflects compliance with the Department of Health's requirements, set out in 'The Statement on Internal Control 2003/04' issued on 15 September 2003 and the further guidance relating to that Statement issued on 7 April 2006, 2 April 2007, 7 April 2008 and 20 May 2008. I report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Directors' Statement on Internal Control covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Foreword, the unaudited part of the Remuneration Report, and the remaining elements of the Operating and Financial Review included in the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2008 and of its net operating costs for the year then ended;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England;
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them; and
- information which comprises the commentary on the financial performance included within the Operational and Financial Review, included within the Annual Report, is consistent with the financial statements.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Directors' Responsibilities

The Directors are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Trust's use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Trust for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for NHS bodies specified by the Audit Commission. I report if significant matters have come to my attention which prevent me from concluding that the Trust has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I identified the following:

- the Board Assurance Framework and risk managements did not operate during the year;

- the strategy for communication with the public and ensuring strategic objectives are consistent with partners and the wider community was not effective;
- procedures for responding to reported under-performance were not effective;
- the system of internal control was not effective;
- there was no medium term financial plan; and
- there was no estates management strategy.

For the reasons set out above, and having regard to the criteria for NHS bodies specified by the Audit Commission and published in December 2006, I am not satisfied that, in all significant respects, Brent Teaching PCT made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008, in that it did not put in place:

- arrangements for setting, reviewing and implementing its strategic and operational objectives;
- channels of communication with patients and their representatives, and other stakeholders including partners, and monitoring arrangements to ensure that key messages about services are taken into account;
- arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to the board;
- arrangements to monitor the quality of its published performance information, and to report results to board members;
- arrangements to maintain a sound system of internal control;
- arrangements to manage its significant business risks;
- adequate arrangements to manage and improve value for money;
- a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities; and
- arrangements for the management of its asset base.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andrea White
District Auditor
Audit Commission
Millbank Tower, Millbank
London SW1P 4HQ

Appendix 4 – Value for money

The following table sets out our assessment against each of the 12 value for money criteria:

| Criterion | Finding | Criterion met? Y / N |
|---|--|-------------------------|
| The PCT has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives. | Linkages between strategic objectives and the priorities of other partners and the wider community were not clear. The Board Assurance Framework, a key tool for gaining assurance on the implementation of strategic objectives, did not operate effectively during the year. This is reflected in the ALE score of '1' against KLOE 5.1. | No |
| The PCT has put in place channels of communication with patients and their representatives, and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account. | The communication strategy was not effective during the year and 'hard to reach' groups were not defined. This is reflected in the ALE score of '1' against KLOE 5.2. | No |
| The PCT has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to the board. | Arrangements for securing improvements where under-performance was identified did not operate during the year. This is reflected in the ALE score of '1' against KLOE 5.3 and the self declaration of non compliance against 14 of the Healthcare Commission core standards. | No |
| The PCT has put in place arrangements to monitor the quality of its published performance information, and to report results to the Board. | Opinion work has identified significant errors in the Better Practice Payment measures. Data quality training needs have not been assessed. This is reflected in the ALE score of '1' against KLOE 5.3. | No |
| The PCT has put in place arrangements to maintain a sound system of internal control. | Internal Audit concluded that only limited assurance could be given on the internal control environment. This is reflected in the ALE score of '1' for KLOE 4.2. | No |
| The PCT has put in place arrangements to manage its significant business risks. | Effective risk management arrangements did not operate during the year. This is reflected in the ALE score of '1' for KLOE 4.1. | No |
| The PCT has put in place arrangements to manage and improve value for money. | The focus on Turnaround in the year has impacted on services in some areas. This is reflected in the ALE score of '1' for KLOE 5.2 and 5.4. | No |
| The PCT has put in place a medium-term financial strategy, budgets and a capital programme that is soundly based and designed to deliver its strategic priorities. | There was no medium term financial strategy for the year. This is reflected in our ALE score of '1' for KLOE 2.1. | No |

| Criterion | Finding | Criterion met? Y / N |
|---|--|---------------------------------|
| The PCT has put in place arrangements to ensure that its spending matches its available resources. | The PCT has achieved each of its three statutory financial targets: revenue resource limit, capital resource limit and provider full cost recovery. | Yes |
| The PCT has put in place arrangements for monitoring performance against budgets. | Although an ALE score of '1' was awarded for weaknesses in development of action plans and finance training for staff, the PCT has remained within its revenue resource limit. | Yes |
| The PCT has put in place arrangements for the management of its asset base. | There was no estates strategy in year and the capital programme was suspended. This is reflected in our ALE score of '1' for KLOE 2.3. | No |
| The PCT has put in place arrangements that are designed to promote and ensure propriety in the conduct of its business. | Arrangements to counter fraud and promote ethical behaviour are in place. This is reflected in our ALE score of '2' for KLOE 4.3. | Yes |