

Annual

Governance

Report

Brent Teaching Primary Care Trust

Audit 2009/10

2 June 2010

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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:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present my initial report on the results of my audit work for 2009/10 which was updated on 2 June 2010.

I discussed and agreed this report with the Director of Finance on 2 June 2010, and will update it again once the outstanding areas of work have been completed.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Primary Care Trust before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Andrea White
District Auditor

2 June 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	10

Audit opinion

- 1 Subject my final audit review and completion procedures, I propose to give an unqualified audit opinion on the financial statements by the due date on 11 June 2010. Should there be any further matters I need to report to you following the completion of my audit work, I will do this via the Audit Committee Chair, the Chief Executive and the Director of Finance.

Financial statements

- 2 The financial statements submitted for audit were complete and supported by good working papers in line with my expectations.
- 3 Officers made minor amendments to the financial statements after the initial draft financial statements were submitted for audit. These related to classification and presentational adjustments within the disclosure notes. None of these affects the Primary Care Trust's (PCT's) financial position as presented in the draft financial statements.
- 4 The Director of Finance runs an effective finance department which has enabled me to deliver a smooth and efficient audit.

Value for money

- 5 Since my initial report issued on 25 May 2010 the PCT has provided me with further evidence in respect of its arrangements relating to its use of natural resources. I have

Key messages

reviewed this additional evidence and am now satisfied that the PCT meets the minimum requirements in this area.

- 6 I have also updated my assessment of the PCT's arrangements for commissioning and procurement. This has been informed from the indicative findings of the World Class Commissioning (WCC) Framework Assessment, a review of the PCT's achievement of priorities set out in its Operating Plan and an assessment of whether the PCT has the minimum arrangements in place to enable the commissioning and procurement of quality local services which are tailored to local needs.
- 7 Based on my updated assessment, I intend to report that the PCT maintains proper arrangements for securing economy, efficiency and effectiveness in its use of resources and hence issue an unqualified value for money conclusion.

Audit fees

- 8 In my original audit plan, the estimated fee for the opinion audit was based on my best estimate at the time and agreed at £148,000 as part of a total audit fee of £206,000. I have contained the audit fee for the opinion within the total you have already agreed.

Independence

- 9 I can confirm that I have carried out the audit in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

10 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the PCT before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Primary Care Trust's (PCT) 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 these statements. It is important that you consider my findings before you adopt the financial statements and the statement on internal control.

Opinion on the financial statements

- 11 Subject to the satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
 - 12 The Director of Finance runs an effective finance department. There has been a smooth transition to NHS Shared Business Services (SBS) and to reporting under International Financial Reporting Standards (IFRS).
 - 13 The PCT has improved its year end processes and the quality of the draft financial statements delivered for audit. The draft financial statements together with a comprehensive set of working papers were available two days before the Department of Health submission deadline.
 - 14 I have been able to deliver a smooth and efficient audit. I have been able to place the maximum reliance on Internal Audit work and officers have responded to my queries efficiently and effectively.
-

Errors in the financial statements

- 15 No material errors have been identified from my testing. A small number of classification and presentational errors have been reported to officers and these have been amended in the financial statements. Appendix 2 contains details of these amendments.
-

Internal control environment

- 16 I have considered your internal control environment relevant to my audit. My review and assessment of the PCT's material systems selected for testing found that the key controls operated effectively.
-

Letter of representation

- 17 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.
-

Key areas of judgement and audit risk

18 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
IFRS Accounting	
<p>This is the first year the PCT is required to prepare the financial statements under International Financial Reporting Standards (IFRS).</p> <p>The accounting treatment of PFI and LIFT schemes, fixed assets, leases and staff benefits has changed under IFRS.</p>	<p>I have reviewed the financial statements and am satisfied that these have been produced in accordance with IFRS and the NHS Manual for Accounts.</p> <p>The PCT has implemented the IFRS requirements in respect of PFI and LIFT schemes, property plant and equipment (previously fixed assets), leases and the accrual for staff's unpaid leave.</p>
Impairment	
<p>The current economic climate increases the likelihood of impairments occurring to the PCT's fixed assets.</p>	<p>The PCT has recognised impairments of £807k in the operating cost statement and taken impairments of £13.475m to the revaluation reserve.</p> <p>I have reviewed the basis of the calculation and am satisfied that the value of the PCT's property, plant and equipment has been reported in accordance with relevant financial reporting standards.</p>
Change of main financial system	
<p>The PCT moved its main financial systems to NHS shared business services during the year.</p>	<p>The PCT moved to NHS shared business services in September 2009.</p> <p>I have reviewed the migration of balances and am satisfied that these were properly transferred. I have also been able to rely on the new system and controls following the move to NHS shared business services.</p>

Accounting practice and financial reporting

19 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2 Accounting practice and financial reporting

Issue or risk	Finding
Provider full cost recovery duty	The PCT did not recover the full costs in relation to its provider functions as required by the Department of Health. The PCT under recovered its costs by £109,000. This is disclosed in note 3.3 of the financial statements.
Better Payment Practice Code	<p>The Better Payment Practice Code requires the PCT to aim to pay all valid invoices by the due date or within 30 days of receipt of a valid invoice, whichever is later.</p> <p>As reported in 2008/09, the PCT's method of calculating its performance against the Better Payment Practice Code was inconsistent with the method set out in the Manual for Accounts. Therefore reliance cannot be placed on the figures reported. This is disclosed in note 6.1 of the financial statements.</p> <p>Since the PCT has moved to the NHS shared business service the PCT's method of calculating performance is in line with the requirements of the Manual for Accounts.</p>

Recommendation

R1 Establish arrangements to ensure full recovery of provider costs.

R2 Monitor performance against the Better Payment Practice Code requirements and take action during the year to ensure compliance of the targets set out within the Code.

Value for money

I am required to decide whether the Primary Care Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

20 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.

21 Since my initial report issued on 25 May 2010 the PCT has provided me with further evidence in respect of its arrangements relating to its use of natural resources. I have reviewed the additional evidence presented to me which shows that the PCT:

- began developing a strategy to reduce its own use of natural resources and its impact on the environment during March 2010 and this strategy was approved by the Board on 1 April 2010;
- has established a clear understanding of its own use of natural resources across its estate (e.g. energy, water and other resources) and has established its baseline usage; and
- has produced plans for delivery to reduce its use of energy, water and raw materials, and incorporate targets into its arrangements to monitor progress in achieving targets in these areas.

I am now satisfied that the PCT meets the minimum requirements for its arrangements for use of natural resources.

22 My assessment of the PCT's arrangements for commissioning and procurement has been informed by the indicative findings from the Department of Health's World Class Commissioning Framework Assessment. You should note that the indicative findings have yet to be confirmed through the Department of Health's calibration process. I have also:

- reviewed how well the PCT has achieved the priorities set out in its Operational Plan; and
- assessed whether the PCT has the minimum arrangements in place to enable the commissioning and procurement of quality local services which are tailored to local needs.

The PCT's achievement against national targets is weak although it has performed well against local targets. There is a clear vision moving forward which is supported by arrangements to enable better delivery of intended outcomes.

23 My conclusion is that minimum value for money requirements have been met and I therefore intend to issue an unqualified value for money conclusion stating that the

Value for money

PCT has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft value for money conclusion.

Glossary

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

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

Qualified

The auditor has some reservations or concerns.

Statement on internal control

A statement of internal control prepared by an audited body and published with the financial statements.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to the Board of 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 2010 under the Audit Commission Act 1998. The financial statements comprise the Operating Cost Statement, the Statement of Financial Position, the Statement of Changes in Taxpayers’ Equity, the Statement of Cash Flows 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 subject to audit, being:

- the table of salaries and allowances of senior managers and related narrative notes; and
- the table of pension benefits of senior managers and related narrative notes.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission in April 2008.

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).

Appendix 1 – Independent auditor’s report to the Board of Directors of Brent Teaching Primary Care Trust

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 subject to audit 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 Operating 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 'Guidance on Completing the Statement on Internal Control 2009/10', issued February 2010. 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 Primary Care 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, the Chairman's Statement and the remaining elements of the Operating and Financial Review. 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 subject to audit. 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 Primary Care 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;

Appendix 1 – Independent auditor’s report to the Board of Directors of Brent Teaching Primary Care Trust

- the financial statements and the part of the Remuneration Report subject to audit 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 subject to audit.

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 Primary Care Trust’s affairs as at 31 March 2010 and of its net operating costs for the year then ended;
- the financial statements and the part of the Remuneration Report subject to audit 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 Primary Care 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 Primary Care Trust for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit

Appendix 1 – Independent auditor’s report to the Board of Directors of Brent Teaching Primary Care Trust

Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the Use of Resources Guidance issued by the Audit Commission. I report if significant matters have come to my attention which prevent me from concluding that the Primary Care Trust has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Primary Care 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 and having regard to the Use of Resources Guidance published by the Audit Commission in May 2008 and updated in October 2009, I am satisfied that, in all significant respects, Brent Teaching Primary Care Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

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
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

[] June 2010

Appendix 2 – Amendments to the draft accounts

During the audit a small number of adjustments and presentational changes were made to the disclosure notes. None of these have impacted on the overall financial position shown by the Operating Cost Statement or Statement of Financial Position. Officers have made the necessary adjustments, however I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 3 Amendments to the draft accounts

Adjusted items	Nature of adjustment
Operating costs (note 5.1)	Reclassification of salaried Trust Led PDS & PCT DS costs (£571k) to other costs.
PCT management costs (notes 7.6.1 and 7.6.2)	Additional commissioning services management costs (£790k) required to be included in the total commissioning management costs - adjustment required to comply with late guidance.
Operating segments (note 2)	Changes to the disclosures regarding provider and commissioning services.

Appendix 3 – Draft letter of representation

To: Andrea White
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Brent Teaching Primary Care Trust - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and staff of Brent Teaching Primary Care Trust, the following representations given to you in connection with your audit of the PCT's financial statements for the year ended 31 March 2010.

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 PCT 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 PCT have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Board and Committee 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:

Appendix 3 – Draft letter of representation

- 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 PCT.

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 PCT 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.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the assumption of fair value disclosed in Note 28, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

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; and
- 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 PCT, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Specific representations

I confirm that in relation to the Willesden Healthcare Centre PFI scheme:

- there have been 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.

I confirm that in relation to leases with BHH LIFT Company Ltd:

Appendix 3 – Draft letter of representation

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

I confirm that the this letter has been discussed and agreed by the Board on [Date] 2010.

Signed on behalf of Brent Teaching Primary Care Trust

Mark Easton
Chief Executive

Jonathan Wise
Director of Finance

Chandresh Somani
Audit Committee Chair

Date:

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Workforce	Yes

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
9	R1 Establish arrangements to ensure full recovery of provider costs.	2				
9	R2 Monitor performance against the Better Payment Practice Code requirements and take action during the year to ensure compliance of the targets set out within the Code.	2				

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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