



Government and Public Sector

Cambridgeshire Primary Care Trust
Annual Audit Letter

2010/11 audit

October 2011



Members of the Board
NHS Cambridgeshire
Lockton House
Clarendon Road
Cambridge
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October 2011

Dear Board Members

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. We presented this Letter to the Audit Committee on 25 October 2011.

We have received considerable assistance from the Directors, managers and staff throughout the PCT in the course of this year's audit. We would like to take this opportunity to thank them for the time they have made available in helping us with our work this year.

Yours faithfully

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

PricewaterhouseCoopers LLP

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

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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Introduction

The purpose of this letter

1. The purpose of this Letter is to provide for the Board and other interested stakeholders a high level summary of the results of the 2010/11 audit work we have undertaken at NHS Cambridgeshire (the PCT). The letter will be published on the websites of the Audit Commission (www.audit-commission.gov.uk) and the PCT (www.cambridgeshire.nhs.uk).
2. We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

Audit opinions issued	Date issued
Audit opinion for the 2010/10 financial statements, incorporating our regularity opinion and our conclusion on use of resources.	June 2011
Reports to management	
Matters arising from accounts audit reported to the Audit Committee under ISA (UK&I) 260.	June 2011
Summary of audit recommendations.	September 2011

3. The most significant matters in the above reports are summarised in this Audit Letter.

Scope of work

4. 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.
5. 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.
6. As auditors we are responsible for:
 - forming an opinion on the PCT's financial statements;
 - reviewing the PCT's statement on internal control;
 - forming a conclusion on the arrangements that the audited body has in place to secure economy, efficiency and effectiveness in its use of resources; and
 - undertaking any other work specified by the Audit Commission.
7. Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we presented to the Audit Committee on 18 January 2011.

Summary of findings

Accounts

8. We audited the PCT's accounts in line with approved Auditing Standards and we issued our audit opinions on the annual accounts and national consolidation schedules (FMA forms) on 30 June 2010. Our opinion as to whether the accounts gave a true and fair view of the state of affairs of the PCT as at 31 March 2010 and of its net operating costs for the year then ended, in accordance with the accounting policies as directed by the Secretary of State as being relevant to the NHS in England, was unqualified.
9. In our view, the underlying quality of the process for producing the accounts, including the supporting working papers, was good, subject to the following. The PCT was not able to finalise the accounts, and we not able to complete our audit, by the Department of Health's deadline of 10 June 2011. This was due to the time needed to resolve two technical issues in relation to the PCT's membership of the Cambridgeshire Local Government Pension Scheme (LGPS), and the application of merger accounting principles in the 2010/11 accounts. We discussed these issues with the Audit Committee in detail in June 2011 prior to signing our opinion on the accounts and our regularity audit opinion on 30 June 2011. We comment on each of these issues below.

Local Government Pension Scheme

10. Up to 31 March 2010, the PCT employed a number of staff who had previously worked for Cambridgeshire County Council (CCC) and who transferred into the NHS in April 2004 as part of the Cambridgeshire wide section 75 pooled budget arrangement for the provision of Health and Social Care for Older People. Up to 31 March 2010, these staff were employed by the PCT and had been engaged in the provision of community health care services. These staff remained members of the Cambridgeshire Local Government Pension Scheme (LGPS), and the PCT had accounted since their transfer for all of the pension assets and liabilities associated with their employment. At 31 March 2010 the PCT's LGPS pension liability was £10m. On 1 April 2010, following the establishment of Cambridgeshire Community Services NHS Trust ('CCS'), these staff transferred employment from the PCT to CCS.
11. Following discussions during 2010/11 between the PCT, CCC (the administering authority of the LGPS), and CCS, it was agreed that the PCT would retain the pension liabilities of staff who had either retired or left the employment of the PCT prior to 31 March 2010, and that CCS would take on the pension liabilities of staff who were active members of the scheme as at 31 March 2010. This division of responsibility for the pension liability was formalised in a tripartite agreement between CCC, CCS and the PCT which was signed on 16 June 2011, and which was supported by legal advice obtained by CCS and CCC. On the basis that the responsibilities for the LGPS liabilities were clearly documented in this agreement, we were not minded to challenge the regularity of the arrangements agreed by the three organisations.
12. The PCT's LGPS liability at 31 March 2011, reflecting the agreed arrangements summarised above, was £3.7m. This was supported by a valuation provided by the LGPS actuaries which was received on 14 June 2011. The valuation identified that a gain of £1m had arisen due to the prescribed use of the Consumer Price Index rather than the Retail Price Index in determining the actuarial values of the LGPS' liabilities. This gain was included as a late adjustment in the PCT's 2010/11 accounts.
13. The tripartite agreement specifies that the PCT and CCC will establish a separate agreement which will allow the PCT to continue making payments into the LGPS in order to settle these liabilities, and the legal advice supporting the agreement addresses the issue of settlement in the context of the PCT's possible demise under the Government's currently proposed changes to the NHS. We recommend that this separate agreement, and the basis for settling the LGPS liability in the event that the PCT demises, should be finalised at the earliest opportunity.

Merger accounting

14. Up to 31 March 2010, the PCT provided community health care services. This function was transferred on 1 April 2010 to CCS, which was established as an NHS Trust on that date. CCS had previously provided this function when it was part of the PCT, operating as an Autonomous Provider Organisation. The HM Treasury Financial Reporting Manual requires the transfer of functions from the responsibility of one part of the public sector to another to be accounted for using merger accounting principles, and the PCT's accounts for the year ended 31 March 2011 were prepared on this basis.
15. One of the aims of merger accounting is to present the results and financial positions of the bodies involved in the transfer of functions as if the body to which the function has been transferred has always been responsible for that function. The transactions relating to the provision of community health care services for the year ended 31 March 2010, and the related assets and liabilities as at 31 March 2010, were therefore removed from the PCT's accounts for the year ended 31 March 2011 and the comparative amounts shown for 2009/10 were restated accordingly.

16. The effect of adopting merger accounting principles on the 2009/10 comparatives reported in the PCT's 2010/11 accounts was summarised in the notes to the accounts. Whilst there were shortcomings in the early drafts of the accounts, we were satisfied that the final version of the PCT's accounts complied with the Treasury's merger accounting requirements, albeit the restatement exercise could not be completed until the receipt of the actuarial valuation of the PCT's LGPS liability on 14 June 2011.

Economy, efficiency and effectiveness

17. Our Use of Resources Code (UoR) responsibility required us to carry out sufficient and relevant work in order to conclude on whether the PCT has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. In accordance with guidance issued by the Audit Commission, our conclusion for 2010/11 was based on two criteria:
 - The organisation has proper arrangements in place for securing financial resilience; and
 - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
18. We were also required by the Audit Commission's guidance to consider the progress made in relation to aspects of value for money arrangements scored as 'inadequate' in our 2009/10 ALE assessment. In the case of the PCT, this concerned the effective management of the PCT's assets to help deliver its strategic priorities and service needs.

Securing financial resilience and economy, efficiency and effectiveness

19. Our work on this criterion included an assessment of the PCT's arrangements for financial governance, financial control and financial planning. We did not identify any fundamental concerns in relation to the PCT's arrangements for financial governance and control.
20. The PCT was able to report an underspend of £0.6m against its Revenue Resource Limit (RRL) and thus meet its statutory financial duty for 2010/11. Under the NHS financial regime for PCT's, the PCT is required to make good overspends accumulated in prior years which, at the beginning of 2010/11, amounted to £26 million. In line with a repayment plan agreed with NHS East of England, the PCT settled £9 million of this historic debt in 2010/11 via a reduction to its revenue resource limit for the year. The achievement of an underspend for the year in these circumstances was therefore commendable.
21. Whilst recognising the PCT's achievements in meeting its statutory financial duty for 2010/11 and recent years and in settling its historic debt, we were required when assessing the PCT's arrangements in relation to financial planning to consider the PCT's track record of delivering targeted, recurring cost savings, as opposed to its ability to identify in year savings opportunities to mitigate any shortfall on previously identified savings programmes. In doing this, we took account of the scale of the cost savings in the PCT's Quality, Innovation, Productivity and Prevention (QIPP) and Reform Plan and its budget for 2011/12.
22. In our view, there was insufficient evidence to demonstrate that the PCT has a strong track record for delivering its targeted savings plans in full. The 2009/10 and 2010/11 QIPP savings targets were not achieved and, at the time of our review in June 2011, clear and robust delivery plans for over half of the £41m QIPP savings for 2011/12 had not been identified. In view of this, whilst acknowledging that management expect to be able to keep expenditure within the RRL for 2011/12 by applying non-recurrent measures if the planned QIPP savings cannot be achieved, we were unable to conclude on the adequacy of the PCT's arrangements for financial planning.
23. Whilst the PCT has undertaken work to challenge how it secures economy, efficiency and effectiveness in a number of areas, we were not able to conclude on the adequacy of its arrangements in this area, given the scale of the unidentified savings that need to be made in 2011/12.

Asset management

24. The PCT's arrangements for asset management were scored as 'inadequate', specifically because of the absence of an up to date, robust Estates Strategy that was linked to the PCT's strategic objectives, and the absence of key performance indicators for the management of the PCT's properties. This resulted in a qualification to our 2009/10 Use of Resources (UoR) conclusion concerning the inadequacy of arrangements for managing the PCT's assets effectively to help deliver its strategic priorities and service needs.
25. Where an audited body was given a qualified UoR conclusion in 2009/10, we were required by the Audit Commission's guidance to undertake sufficient work to ensure that the organisation has improved its arrangements in that area, using the 2009/10 Audit Commission guidance as the basis for our assessment of whether there has been improvement. Based on the information made available to us, we were unable to conclude that significant improvement had occurred in the PCT's arrangements in this area over 2010/11.

Our value for money conclusion

26. Following detailed discussions with the Audit Committee in June 2011, we qualified our 2010/11 value for money conclusion by referring to the matters summarised above in relation to the arrangements in place for securing financial resilience, challenging economy, efficiency and effectiveness, and asset management.
27. The PCT's 2010/11 Statement on Internal Control (SIC) referred to our qualified conclusion and summarised the management actions to be taken. The SIC confirmed that the delivery of the PCT's QIPP plan will be the PCT's main focus during 2011/12 for ensuring financial balance and for putting the organisation on to a more stable financial position going into 2012/13 and beyond. It also stated management's commitment to the further development of the Estates Strategy and suitable key performance indicators, subject to the anticipated transfer of the majority of the estate to CCS in 2011/12.

Payment by Results (PbR) Data Assurance Framework

28. The Audit Commission is continuing with its PbR data assurance framework. In 2010/11, the Audit Commission required us to undertake phase 1 of a review of whether the PCT's arrangements to avoid poor quality data being used for PbR contracting are appropriate.
29. Our main findings from that work were that the PCT was 'performing adequately' for all of the six criteria that we were required to conclude on.

Regularity issues

30. PCTs are legally required to ensure that their transactions are 'regular', ie that their expenditure and income have, in all material respects, been applied to the purposes intended by Parliament, and that their financial transactions conform to the authorities which govern them. Nothing came to our attention in the course of our audit to indicate any irregular transactions and, as noted in paragraph 11 above, we issued an unqualified regularity audit opinion within our audit report on the accounts.

Statement on Internal Control (SIC)

31. We reviewed the SIC to consider whether it complied with relevant guidance and whether it was misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.
32. We recommended last year that the form and content of the SIC should be refreshed so that it presents for the reader a shorter and more concise and meaningful summary of the information required by the Department of Health's guidance. We were pleased to note our recommendation had been addressed in preparing the SIC for 2010/11, the overall clarity of which was much improved in comparison to the prior year's.

Annual report

33. The Department of Health Manual for Accounts requires PCTs to publish an Annual Report, consisting of a Directors' Report and a Remuneration Report. The PCT has taken the option to publish summary financial statements with the Annual Report, rather than publishing its full accounts with the Annual Report. We are required to provide our opinion on the consistency of the summary financial statements within the Annual Report with the statutory financial statements and the Remuneration Report. We also read the Directors' Report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.
34. We reviewed the Directors' Report to assess whether it was consistent with the summary financial statements. We found no areas of inconsistency to report in this context. In our opinion, we stated that we were satisfied that the summary financial statements were consistent with the statutory financial statements and the PCT's Remuneration Report.
35. Whilst there were some delays in the receipt of certain detailed information, the process for producing the Annual report was on the whole much improved for 2010/11.

Annual summary of audit recommendations

36. In accordance with the Audit Commission's Standing Guidance for Auditors, we have provided a Summary of Audit Recommendations to the Director of Finance, and we presented this to the Audit Committee in October 2011.
37. Our summary included seventeen recommendations relating to detailed internal financial control issues and opportunities for improving processes in the preparation of the annual accounts. These recommendations have been agreed by management and timetables are in place for their implementation.

Acknowledgement

38. We would like to record our thanks to the Board and management for the co-operation and assistance we received during the course of our audit.

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

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