Government and Public Sector

Coventry and Warwickshire Partnership

NHS Trust

Annual Audit Letter

2014/15 Audit

July 2015
Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2014/15 audit. We hope this provides a useful source of reference for the Trust.

Yours faithfully

PricewaterhouseCoopers LLP

Coventry & Warwickshire Partnership NHS Trust
Wayside House
Wilsons Lane
Coventry
CV6 6YN

June 2015

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

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

**The purpose of this letter**

This letter provides the Trust’s Board with a high level summary of the results of our audit for 2014/15, in a form that is accessible for the Trust and other interested stakeholders.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Annual Audit Plan – January 2015;
- Audit Committee Update Reports for work carried out during 2014/15 – July and October 2014, and March and May 2015;
- Audit opinion for 2014/15 financial statements, incorporating the value for money conclusion – June 2015; and
- Report to those charged with Governance (ISA (UK&I) 260) – June 2015.

We have included in this report our significant audit findings.

We have also separately reported on the Annual Quality Account in June 2014. Our work on the Quality Account for 2014/15 was performed as non-audit work.

**Scope of work**

We carry out our audit work in accordance with the Audit Commission’s Code of Audit Practice (NHS), International Standards on Auditing (UK and Ireland) and other relevant guidance issued by the Audit Commission.

The Trust is responsible for preparing and publishing the Trust’s financial statements, including the Annual Governance Statement. The Trust is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we need to:

- form an opinion on the financial statements;
- review the Trust’s Annual Governance Statement;
- form a conclusion on the arrangements that the Trust has in place to secure economy, efficiency and effectiveness in its use of resources; and
- carry out any other work specified by the Audit Commission, which this year comprised work on the Trust’s Quality Account.

We have carried out our audit work in line with our 2014/15 Audit Plan that we issued in January 2015.
Audit Findings

Accounts
We audited the Trust’s financial statements in line with approved Auditing Standards in May 2015. We reported the detailed findings from our audit of the financial statements to the Trust’s Audit Committee at a meeting on 26 May 2014 and issued an unqualified audit opinion on 4 June 2015.

We summarise below the significant matters arising from our audit of the financial statements.

Accounting issues
We identified the following key matters during the audit:

- **Provisions** – The financial statements include provisions totalling £5.172 million, which is an increase from the prior period balance of approximately 66%. The majority of the closing provision balance relates to pensions of former staff for £2.853 million, other provisions for £1.179 million and restructuring at £1.215 million.

Other provisions – We focused our work on the three largest provisions in this category and concluded that we were not fully persuaded that the recognition criteria had been met. We raised an immaterial judgemental misstatement for £750,000.

Restructuring provisions – We considered the three largest provisions in this category and concluded that there was insufficient evidence that a valid expectation had been raised with those affected. As this did not meet all the recognition criteria, we raised an immaterial judgemental misstatement for £561,658.

For all categories we concluded that, where the prior year provisions were used or released, this had been done appropriately.

- **Financial penalties accrual** - As part of our work, we tested a transaction for £1,063,053 with NHS Coventry and Rugby. Most of this comprised an accrual against CQUIN schemes of £879,518 and a £183,000 credit note provision. We concluded that, although the Trust’s monitoring processes did indicate a risk to the achievement of CQUIN targets, the accrual and associated expenditure was overstated. We raised an immaterial judgemental misstatement for the full amount.

- **Valuation of Property, Plant and Equipment** – We reviewed the work of the District Valuer and considered whether the base data used, assumptions applied and accounting treatment adopted were appropriate. We identified no significant control weaknesses or misstatements as part of this work.

- **Holiday pay ruling** – The Employment Appeal Tribunal’s decision concerning holiday pay arrangements for employees’ paid overtime could mean that the Trust incurs costs that had not previously been identified. The Trust has established that Agenda for Change pay includes overtime when calculating holiday pay. As a result, the Trust has not included any liability on this matter within the 2014/15 financial statements. We are satisfied with the Trust’s treatment at this stage.

The Audit Committee decided not to adjust the accounts for any misstatements we raised because they were individually, and in aggregate, immaterial.

Accounts preparation
The draft financial statements were submitted to the Department of Health on time. Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit.
The working papers were available for audit on time and were of high quality. Key staff were also available to address any audit queries. The Finance Team responded positively to our audit questions and requests for information. The Trust’s accounting performance continues to be strong.

**Adjustments to the Accounts**

We identified no material misstatements in the draft accounts.

**Going Concern**

As part of our audit programme we are required to consider whether there are any events or conditions that may cast significant doubt on the Trust’s ability to continue as a going concern.

We reviewed the Trust’s financial plans for 2015/16 as part of our work noted above. In particular we:

- considered the status of the Trust’s agreed income contracts for 2014/15, to ensure that the most significant amounts of income included in the plans were supported by signed contracts;
- challenged the status of the Trust’s Cost Improvement Plan (CIP) schemes to establish whether they are in place and will drive out costs sufficiently for its plan to be delivered;
- considered the impact of savings plans on the cash flow of the Trust;
- assessed the status of CIP plans for 2015/16; and
- considered the impact of the CQC inspections and reports.

We concluded that the Trust’s use of the going concern principle in the accounts was appropriate.

**Our value for money conclusion**

We carried out sufficient, relevant work in line with the Audit Commission’s guidance, so that we could conclude on whether the Trust had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

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

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified value for money conclusion.

**Annual Governance Statement (AGS)**

The aim of the AGS is to give a sense of how successfully the Trust has coped with the challenges it faces and of how vulnerable the organisation’s performance is or might be, drawing on evidence on governance, risk management and controls.

We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Trust. We found no areas of concern to report in this context.

**Quality Account**

The Trust has a legal duty to publish a Quality Account which must contain the elements required by Quality Accounts Regulations. We were engaged to undertake work on your Quality Account under NHS England’s detailed guidance, *NHS Quality Accounts – Auditor Guidance 2014/15* (“the Guidance”), which was published in March 2015.
We were required by the Guidance to review the content of the 2014/15 Quality Account and two performance indicators, and issue a limited assurance conclusion on whether anything has come to our attention that would lead us to believe that:

- The Quality Account is not prepared in all material respects in line with the information requirements prescribed in the Schedule referred to in Section four of the Regulations (“the Schedule”);
- The Quality Account is not consistent in all material respects with the sources specified in the Guidance; and
- The specified indicators in the Quality Account identified as having been the subject of limited assurance in the Quality Account have not been prepared in all material respects in accordance with Section 10c of the NHS (Quality Accounts) Amendment Regulations 2012 and the six dimensions of data quality set out in the Guidance.

We carried out this work in line with guidance issued by NHS England. This work was carried out during May and June 2015 and is due to be reported to the Trust in July 2015.

As a result of that work we identified no significant matters that impacted on our limited assurance report. This resulted in an unqualified limited assurance report in respect of the content of the Quality Account and the mandated specified indicators.
**Final Fees**

We reported our fee proposals in our audit plan. Our actual fees charged were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2014/15 outturn</th>
<th>2014/15 fee proposal</th>
<th>2013/14 final outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Statements</td>
<td>61,250</td>
<td>61,250</td>
<td>61,250</td>
</tr>
<tr>
<td>Quality Account</td>
<td>10,000*</td>
<td>0</td>
<td>10,000</td>
</tr>
<tr>
<td>Use of Resources</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Redundancy Letters</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total audit fee</strong></td>
<td><strong>81,250</strong></td>
<td><strong>71,250</strong></td>
<td><strong>81,250</strong></td>
</tr>
<tr>
<td>Non-audit work – Quality Governance</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total fees (audit and non-audit work)</strong></td>
<td><strong>81,250</strong></td>
<td><strong>71,250</strong></td>
<td><strong>81,250</strong></td>
</tr>
</tbody>
</table>

* The Audit Commission work programme for NHS trusts for 2014/15 no longer includes a specific fee for work conducted over the Quality Accounts, due to NHS England reviewing the approach for assurances gained over the Quality Accounts.

Work in relation to your Quality Accounts under our Audit Commission work programme for 2014/15 was not originally included in our proposals and audit plan.

For 2014/15 NHS England asked for similar assurance arrangements to those in 2013/14. This was outside of our audit commission work and is being conducted under a separate letter of engagement with the Trust.
In the event that, pursuant to a request which the Trust has 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”), the Trust is required to disclose any information contained in this report, we ask that the Trust notify us promptly and consult with us prior to disclosing such information. The Trust agrees 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, the Trust discloses 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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