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Wandsworth Primary Care Trust Charity

Report to the Trustees

Year ended 31 March 2013

Contents

1 Introduction

We have pleasure in presenting this report relating to our audit of the financial statements of Wandsworth Primary Care Trust Charity for the year ended 31 March 2013. We note that this report will be presented to the board of St George's Healthcare NHS Trust who are now responsible for the management of these funds. As the new stewards of the funds it is for the new trustees (Board of the NHS Trust holding responsibility for management of the funds and charity) to satisfy themselves, via appropriate due diligence and management reassurances, that everything is in order for the accounts to be approved and the letter of representation to be signed. Previous trustees have no responsibility or authority to sign either document. This is the standard approach taken with any change in accountability or transfer within the NHS / other public sector entity. We have performed the audit of the financial statements for the year ended 31 March 2013 as set out in this management letter.

We have discussed this report with the finance team as part of our audit process. The purpose of this report is to update the Trustees on the progress of the audit and of any significant matters that have arisen during the course of our work.

1.1 Audit status

We have completed our audit, subject to the following outstanding matters:

- Approval of the financial statements and letters of representation;
- Completion procedures including subsequent events review.

1.2 Audit overview and conclusions

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by the Trustees we expect to issue an unqualified audit opinion for Wandsworth Primary Care Trust Charity following the approval of the accounts on 30 January 2014.

Section 2 and section 3 outline the audit scope and audit approach.

1.3 Findings arising from the audit

Section 4 of this report summarises how we addressed the areas of audit focus. There were no significant issues arising from the audit to bring to your attention.

1.4 Misstatements and significant deficiencies in internal control

A summary of control deficiencies identified is included in Appendix 1 as well as an update on those raised in previous years. There are no uncorrected misstatements to report subject to the completion of the outstanding areas noted above.

1.5 Other areas of feedback

Section 5 contains other matters for the attention of those charged with governance, including elements of communication required under International Standard on Auditing "Communication with those charged with governance".

Section 6 contains details of those external developments in the sector that we believe are relevant for the Corporation and your consideration.

Our draft letter of representation attached in Appendix 2 is our standard wording applicable to the Charity. We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Charitable Fund throughout our work.

2 Audit Scope

As discussed with you when we planned our audit we identified your needs and requirements and have demonstrated below how we have delivered against these requirements:

Ref:	Requirement	Delivery of requirement
1	A statutory opinion on the financial statements for the year ending 31 March 2013.	We performed audits of the statutory accounts and reviewed the Annual Report and financial statements for adequacy of disclosure and compliance with the requirements of generally accepted accounting practice in the UK (UK GAAP), including the Charities Statement of Recommended Practice (SORP 2005), the Charities Act 2011 and the Companies Act 2006.
2	Report to the Trustees (and management) on the significant findings arising from our audit.	Our findings from the audit are captured in this report.
3	Regular communications between ourselves, senior management and Trustees at the Charity on matters relating to the audit and on issues arising from it, in accordance with the International Standard on Auditing (ISA) 260 (revised and re-drafted) 'Communication with those charged with governance'.	As the audit progressed, we discussed emerging issues with management.
4	An engagement team with audit experience in the charities sector and which has an understanding of the issues faced by the charity and its subsidiary.	Our team is drawn from our Charities Group.
5	We are required by ISA 220 (re-drafted) '*Quality control for an audit of financial statements*' to implement quality control procedures that are applicable to the individual audit engagement, in particular, to consider ethical and independence requirements.	Having carried out an initial review of links between our firm and the charity, we are satisfied that appropriate steps have been put in place to ensure our independence and objectivity within the requirements of the regulatory and professional framework.
6	We plan and perform our audit in order to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality is considered at the overall financial statement level and in relation to individual financial statement balances, classes of transactions and disclosures. Materiality may also be influenced by considerations such as legal and regulatory requirements.	The assessment of what is material to the financial statements includes consideration of both the amount (quantity) and nature and circumstances (quality) of misstatements: normal guidance for materiality for charities is of the order of 2% of total incoming resources or 2% of total assets. As discussed with you at the planning phase of the audit we used 2% of total incoming resources as the materiality for the engagement. The application of materiality may result in different consideration being applied depending on the effect on the financial statements. In some cases the impact of relatively small amounts may need to be aggregated, in others the expected degree of accuracy of certain statutory disclosures may make normal materiality considerations irrelevant.

3 Our audit approach

The Trustees are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the charity. In practice, this responsibility is delegated to management. One of the aims of our audit approach is to assess how well the Trustees and management have fulfilled their responsibilities to enable us to give an independent opinion on the financial statements.

We have conducted our audit in line with the approach we discussed with you at planning. Our approach was understanding how you managed the charity, and what information you use to do this. Our approach was risk based, seeking to rely on management controls where possible.

3.1 Audit team

The key members of our audit team are outlined in the table below.

Our team includes leading charity specialists across audit who have extensive experience of the sector.

Audit Engagement Leader	Audit Engagement Manager
Name: Kevin Lowe	Name: Laurence Atkins
Tel No: 020 7212 4267	
Email: kevin.lowe@uk.pwc.com	

3.2 Risk of Fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

3.2.1 Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

As registered charity auditors we also have a responsibility to report suspected or actual instance suggesting dishonesty or fraud involving a significant loss of or major risk to charitable funds or assets to the appropriate regulator.

3.2.2 Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour;
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation; and
- to report significant fraud to the audit committee.

3.2.3 Responsibility of those charged with governance / the audit committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top";
- to investigate any alleged or suspected instances of fraud brought to your attention; and

- to report significant fraud to the regulator.

3.2.4 Your views on fraud

We enquire of the Audit Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

4 Areas of audit focus

As part of our planning process we identified the following developments and associated risks that we focused on during the course of our audit.

As discussed at the planning stage, **significant** risks will require additional attention and audit work. **Elevated** risks will require some additional attention; however, not to the same extent as significant risks. There are also **normal** level risks that relate to the financial statements for which a standard level of audit work will be required.

We have included a summary of the planning work, our approach, our audit response and our findings below.

Our response to the areas of audit focus identified in the audit plan:

Significant risk identified	Audit response
Revenue recognition	
The Charities SORP and Financial Reporting Standard 5 include some specific criteria that need to be assessed in determining the period in which income is recognised. In some cases, judgement is required in assessing whether these criteria have been met. In addition there are inherent risks around the completeness of income.	In responding to this risk within our audit work, we have considered each income stream relevant to the charity and the associated audit assertions. For each material income stream on the face of the SOFA, we have tested a sample of transactions and agreed these to supporting documentation and receipt, without exception. We have reviewed the current income recognition policies to ensure that this is consistent with the detailed guidance in the SORP, focussing on higher risk areas relating to cut-off. During our testing of the charity, we identified presentational disclosures which we have updated.
Management override	
In every organisation, management may be in a position to override the routine day to day financial controls. This type of control breach may result in a material misstatement. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	We updated our understanding of the controls in place around key financial cycles, and the IT control environment. We performed detailed audit work on manual journals, following a risk based approach, without exception.In addition we have incoprated an element of unpredictability in the audit through reviewing additional bank reconciliations. No issues were noted from audit procedures performed.

5 Other matters

5.1 Required communications:

The following table contains communication required under ISA 260 (revised and re-drafted) “Communication with those charged with governance”.

Requirement	Delivery of requirement
Uncorrected and corrected misstatements	There are no uncorrected misstatements or significant corrected misstatements to report.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Trustees to represent to us that they have considered the accounting policies and that there have not been any material changes in the accounting principles and policies used during the year.
Significant qualitative aspects of the charity’s accounting practices and financial reporting, management’s judgments and accounting estimates	There were no significant judgments or accounting estimates were used in the preparation of the financial statements.
Deficiencies in the internal control environment	The purpose of the audit was to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you. An update on all deficiencies in internal control reported in the prior year is included in Appendix 1. One additional deficiency was identified by the performance of audit procedures in the current year. This is detailed in Appendix 1.
Details of material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	None noted.
Significant difficulties encountered during the audit	None noted.
Confirmation of audit independence	We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Charity, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

6 External developments

Key Issue	Response
The Charity Commission and the Office of the Scottish Charity Regulator, as the joint SORP-making body for charities, have developed a new draft of the SORP in partnership with the Charities SORP Committee. The Charities SORP (Statement of Recommended Practice) sets out how the wider reporting framework applies to charities. The SORP is being revised to reflect the arrival of a new overarching Financial Reporting Standard (FRS102) issued by the Financial Reporting Council in March this year. This standard has been welcomed by many charities as being the first to address key issues faced in charity and 'public benefit entity' reporting. The Charity Commission have set our their proposals for the new SORP, which will apply for accounting periods starting on or after 1 January 2015, as an 'exposure draft' for consultation which ran until November 2013. Responses to this consultation are now being considered by the Charity Commission and a final SORP is expected in May 2014. Further details can be found at: http://www.charitysorp.org/	*We would expect the Charity to report under FRS 102, which will have an impact on the financial statements of the Charity, as well as operational impacts on systems and training.* *Management should start considering how best to plan for these changes. The new standard will need to be applied for the accounts prepared to the 31 March 2016. It is expected that the Charity will need to be able to restate the financial position of the Charity at 31 March 2015 for the purposes of preparing comparatives for the first set of accounts prepared under this standard.* *Audit Committees also need to understand the key areas of change so they will be able to properly discharge their responsibilities under the new SORP, as well as challenge progress with the conversion project to new UK GAAP which management will be undertaking.*
Lord Hodgson was appointed to undertake a wide ranging review of the Charities Act. A 159-page review, entitled 'Trusted and independent: Giving charity back to charities' was published in June 2012 and contains dozens of recommendations aimed at shoring up public trust and confidence in the voluntary sector and improving the regulatory environment in which it operates. The report can be found on the Cabinet Office website (*www.cabinetoffice.gov.uk*)	*For information.*
In October, the Charity Commission report 'Charities Back on Track 2011-12' noted that 73 out of the Commission's 85 investigations involved concerns about poor governance or poor trusteeship. The Charity Commission have urged all trustees to ensure they regularly remind themselves of the basic duties and core requirements. Key tools, available from the Charity Commission, include the Essential Trustee (CC3) and Hallmarks of an Effective Charity (CC10). These tools explain what the law expects of trustees and what steps trustees can take to make sure they are fulfilling their legal duties.	*For information.*

Appendices

Appendix 1 – Prior Year Audit Issues and Update

We have included a summary of our accounting and audit findings below. All control deficiencies identified in the prior year were still evident in the current year have been updated. These have been reiterated as the transfer of the Charity to the St George's NHS Trust provides an opportutiny for Management to reconsider these recommendations. One additional deficiency, Finding 4, was also noted in the current year.

Finding	Recommendation/Status
1. General Ledger (Issue originally raised in 2007/08)	
The Charity has not adopted the Oracle general ledger or SBS, instead relying on a manual Excel spreadsheet as a general ledger, with the PCT processing and then recharging all income and expenditure transactions. The lack of an established general ledger system increases the risk the Charity faces. For example, there are increased risks over the arithmetical accuracy of accounting listings, over the segregation of duties relating to access to different parts of the general ledger, and of human error.	Findings are consistent with prior year. Management should consider the application of a new accounting system.
2. Service Level Agreement (Issue originally raised in 2007/08)	
An updated SLA between the PCT and the Charity was in place for 2010/2011 but had not been signed.	An updated, signed SLA for 2012/13 could not be provided during the audit.
3. Audit Trail (Issue originally raised in 2011/12)	
It was noted that bid numbers are not assigned upon approval of the bid. It was also noted that the bid numbers are not then documented clearly on all documentation relating to bid expenditure. In addition, due to a number of reasons identified by management the amounts approved cannot be tied directly through to invoice. There is evidence that the project budget holder approves each invoice prior to it being received at the Charity. There is also evidence that budget holders are aware of the funds remaining and are spending in line with approvals.	We recommended that the Charity introduce a more formal and appropriate way of documenting the bid approval number and refer to this throughout the payment process. In 2012/13, testing revealed that the above recommendation had not been implemented.
4. Analysis of Net Assets Between Funds	
It was noted that net assets were not allocated to funds on a consintent basis with the corresponding movements in income and expenditure, as year end assets and liability balances cannot be traced to the corresponding movements in the SOFA for the transaction from which they originated. Whilst total funds are not misstated, there may be insignificant misclassification of investments and net current assets balances between funds.	Appropriate further work should be completed to ensure that net assets can be identified by each individual fund on a granular level.

Appendix 2 – Representation letter

As in prior years, we obtain a letter of representation from the Trustees in respect of our audit of the Charity's financial statements.

A draft of which is included under separate cover.

There are no significant changes from the prior year's representation letter other than to include wording relating to the change and transfer of funds from Wandsworth PCT Charity to St George's Hospital Charity.

The representation letter will need to be dated the same date as we sign our audit opinion and you sign the annual report and financial statements.

We therefore will need the financial statements and representation letter to reach us the same day as they are signed by the Trustees. To facilitate this please ensure you fax, or scan and email, to us a copy of the signed accounts and letter of representation before sending the original documents by courier or post.