

12 February 2010

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Dear Paul

### Annual audit fee 2010/11

Following completion of our audit planning, I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at Somerset PCT. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11.

As I have not yet completed my audit for 2009/10, the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is for £225,800 (excluding VAT), which compares to the planned fee of £238,800 for 2009/10. The fee quoted is still subject to our Regional fee moderation process. A summary of our proposed fee is shown in the table below.

#### Audit fee

Audit area	Planned fee 2010/11	Planned fee 2009/10
Financial statements	£120,900	£123,900
Use of Resources/ VFM Conclusion Including risk-based audit work: <ul style="list-style-type: none"><li>Provider services phase III</li></ul>	£104,900	£114,900
<b>Total audit fee</b>	<b>225,800</b>	<b>238,800</b>
Payment by Results	£33,400	£33,400

The Audit Commission has published its work programme and scales of fees 2010/11. The Audit Commission scale fee for Somerset PCT is £225,800. The fee proposed for 2010/11 (excluding the Payment by Results element) is at the scale fee level and will be billed in monthly instalments. The Payment by Results element will be billed on completion of the work.

The reduction in fee for the financial statements element of the audit reflects the costs of additional audit work last year, arising from the introduction of International Financial Reporting Standards. Changes in International Auditing Standards has increased the audit procedures I need to carry out, however, the Audit Commission has agreed to absorb an element of the cost of the additional requirements within the fee.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2009/10. A separate plan for the audit of the financial statements will be issued. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. However, I have identified a number of significant risks in relation to my opinion and value for money conclusion. For each risk, I consider the arrangements put in place by the Somerset PCT to mitigate the risk, and plan my work accordingly. My initial risk assessment for the opinion and value for money audit work is shown in the table below:

<b>Risk</b>	<b>Planned work</b>	<b>Timing of work</b>
The PCT has separated the provision and commissioning of directly provided services. With new structural and leadership arrangements alongside the scale and complexity of the current challenges faced by NHS bodies, this increases the importance of effective management for the future delivery of services.	Carry out a review of provider services phase III, to include financial management arrangements, using the Audit Commission's red risk audit methodology.  This will also include a follow up of our phase II report.	To be agreed

<p>Continuing care is an important area of investment for the PCT and given the additional numbers of requests being received for NHS funded continuing care, a revised year end overspend for 2009/10 of £7 million has been factored into the overall financial position. Although this is being funded through the development programme there is a risk that a continued increase in expenditure will affect the financial position of the PCT.</p>	<p>Monitor as part of opinion and UoR audit.</p>	<p>Jan-May 2011</p>
<p>We have updated our assessment of the PCT's arrangements for the National Programme of IT (NPfIT). The PCT's risk management and arrangements for obtaining value for money from the roll out of NPfIT remains a priority.</p>	<p>We will continue to monitor NPfIT developments at the PCT and the implementation of <i>Informatics Planning 2010/11 - DOH December 2009</i>.</p>	<p>Oct-Dec 2010</p>
<p>A number of community hospital building developments are well underway. There is a risk that any slippage of the programme will not deliver the benefits on time.</p>	<p>Monitor as part of opinion and UoR audit.</p>	<p>Jan-May 2011</p>
<p>Follow up on Information management and governance (IM&amp;G) report.</p>	<p>We will carry out a follow up of our IM&amp;G report.</p>	<p>Jan-Mar 2011</p>

I will issue a separate specification for the provider services phase III project, prior to the commencement of the work.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2010/11 are:

Kieron Marston, Audit Manager 07769 932607

Martin Adfield, Performance Specialist 07867 550410

Jennifer Hunnisett, Team Leader 07786 702090

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Bill Sanderson, South West Head of Operations.

Yours sincerely

A handwritten signature in cursive script that reads "B. Bethell".

Brian Bethell  
District Auditor

## Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

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**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit fee letter	February 2010
Interim audit memorandum (if appropriate)	April 2011
Annual governance report	May 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	June 2011
Final accounts memorandum (to the Director of Finance and Performance)	June 2011
Use of Resources report	July 2011
Annual audit letter	September 2011
<b>Project specifications and reports</b>	
Provider services phase III report	To be confirmed