

Annual Audit Letter

Brighton and Hove City Primary Care Trust

Audit 2007/08

October 2008



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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.
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Summary

Key messages

- 1 During 2007/08 the PCT took further steps toward securing long term financial stability and enhancing arrangements for deriving value for money from its use of resources. It has taken substantive action towards addressing the recommendations contained in our 2006/07 Annual Audit Letter. The arrangements underpinning financial management were developed throughout the year and enabled the PCT to generate a year end surplus in support of the wider health economy.
- 2 During 2006/07 and 2007/08, several organisational changes were implemented with the aim of strengthening the PCT's overall capabilities. The PCT was restructured into five directorates (Assurance and Development, Commissioning, Finance, Public Health and Quality and Engagement), integrated teams were established and a new Professional Executive Committee was implemented, in line with national guidance, from 1 October 2007.
- 3 I issued an unqualified opinion on the PCT's financial statements and an unqualified value for money conclusion on 23 June 2008. A number of difficulties were encountered during the audit of the accounts, which resulted in additional audit work being required to deliver the opinion. We are working closely with the PCT to address these issues and an action plan is being developed by the PCT, in conjunction with ourselves, to identify and leverage efficiencies and streamline the accounts production process going forward. For 2008/09, the PCT recognises that it will need to address these matters within a faster accounts closure timetable, and has plans in place to do so.
- 4 My Auditor Local Evaluation (ALE) judgement, considering the effectiveness of the PCT's arrangements to deliver value for money, concluded that the PCT has improved in respect of financial management and arrangements to secure value for money. These improvements enabled the PCT's overall score to move from a 'level 2' to a 'level 3'. This is a commendable achievement and is demonstrative of the PCT's commitment to improvement. However, the PCT is aware of the need to generate further improvement in the areas of financial reporting and internal control, both of which remained at level 2. The PCT's performance in these two ALE areas is now below that achieved by most PCTs nationally.
- 5 The PCT will continue to face financial challenges in the year ahead. It needs to generate savings of £5.3m to meet its financial targets in 2008/09 and will need to identify further savings plans to maintain the recurrent underlying surplus of £10m throughout 2009/10. Continued close monitoring of the PCT's financial position will be essential to minimise the risk of slippage.

- 6 Brighton and Hove has some of the most deprived areas in England. Together with the City Council, the PCT has made progress in establishing joint strategic arrangements to manage health inequalities. However, further action is required to reduce local health inequalities, in particular: enhanced scrutiny and performance monitoring of outcomes achieved; better commissioning; and improved engagement with partners, particularly the mental health service provider.
- 7 The PCT has made progress in implementing Practice Based Commissioning (PBC) but further work is required to ensure it functions well at GP practice level and encourages GPs to take ownership for identifying and recommending local service redesign to improve patient care.

Key recommendations	
R1	Finalise and implement the plans to strengthen the arrangements for financial reporting and internal control.
R2	Identify fully the savings required to meet financial targets and ensure performance against savings plans is monitored robustly.
R3	Improve the scrutiny and performance monitoring arrangements for health inequalities to raise awareness of performance and outcomes achieved to drive through the service changes required to reduce inequalities.
R4	Encourage and engage GP's, through Practice Based Commissioning, to take ownership for identifying and recommending local service redesign to improve patient care.

Purpose, responsibilities and scope

- 8 This Annual Audit Letter (letter) summarises the key issues arising from our work carried out during the year. I have addressed this letter to the Board of the PCT as it is the responsibility of the PCT to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the PCT in meeting its responsibilities.
- 9 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the PCT will publish this report on its website.
- 10 I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.
- 11 As your appointed auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the PCT's accounts; and
 - whether the PCT has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 12 Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health Check.
- 13 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that I consider the PCT should be addressing. I have listed the reports issued to the PCT relating to the 2007/08 audit at the end of this letter.

Audit of the accounts

- 14 I issued an unqualified opinion on the PCT's accounts on 23 June 2008, on the deadline set by the Department of Health for NHS bodies to submit audited accounts. In my opinion:
- the accounts give a true and fair view of the PCT's financial affairs and of its net operating costs for the year; and
 - in all material respects the expenditure and income have been applied in accordance with relevant authorities.
- 15 Before giving my opinion I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2007/08 audit. I issued a draft report on 17 June 2008 in this respect and reported further to members of the Committee in respect of additional issues arising subsequent to the Audit Committee date but before issuing my opinion. Only the most significant issues arising are repeated in this letter.

Accounting issues

- 16 The financial statements presented for audit were received by the deadline and, in line with good practice, included a number of additional free text notes. However, additional audit work above that anticipated was required because we were not able to place full reliance on the financial controls operating at the PCT throughout the year, which resulted in additional substantive testing being required to gain the appropriate assurance. In addition, the audit trail between the accounts, working papers and the ledger was not always complete and revised sets of accounts were presented during the audit, which required us to revisit audit work previously completed.
- 17 Our audit identified an error in the PCT's accruals which resulted in a downwards adjustment to the accruals balance. In response, the PCT decided to write back accruals of £1.8m which had previously been written off and which the PCT intended to write off again following the close of the audit. The insertion of these additional accruals had the effect of maintaining the PCT's year end surplus of £3m, in line with that forecast. We were not satisfied that these entries represented valid accruals and asked the PCT to reverse this accounting treatment. The PCT declined to action the amendment. As the value of the adjustment was below our materiality level we accepted this and did not amend our opinion, conclusion and certificate, although we reported the matter to the Audit Committee. Had the correct adjustment been made, the PCT would have exceeded its forecast £3m surplus by £1.8m.
- 18 As part of my audit I reviewed the PCT's accounting treatment in respect of a number of technical accounting issues.
- The PCT's provision of transitional support of £10m to BSUHT.
 - The revaluation of assets in respect of the Independent Sector Treatment Centre (ISTC).
 - The accounting method adopted to calculate the ISTC prepayment.

Audit of the accounts

- The disclosure of the PCT's pooled budgets.
- The accounting treatment supporting the PCT's continuing care provisions.
- The accounting treatment supporting clinical work in progress.

I did not identify any material misstatements; however, I made a recommendation for improving the clarity of the PCT's disclosure of its pooled budget arrangements. I also made a number of recommendations for strengthening the overall control environment and accounts production and audit process at the PCT.

PCT's use of resources

- 19 I am required to conclude on whether the PCT has 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.
- 20 I am also required to assess how well NHS organisations manage and use their financial resources by providing scored judgements on the PCT's arrangements in five specific themes. This is known as the Auditor's Local Evaluation (ALE). The Audit Commission provides the scores to the Healthcare Commission (HC) to use as part of its Annual Health Check.

Value for money conclusion

- 21 I concluded that the PCT had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and I issued an unqualified conclusion to that effect on 23 June 2008.

Auditor's Local Evaluation judgement (including financial standing)

- 22 My Auditor Local Evaluation (ALE) assesses how well NHS organisations manage and use their financial resources. 2007/08 represents our third ALE assessment for the PCT and we formally communicated our overall score to the PCT on 13 August 2008.
- 23 The PCT has taken a positive and proactive approach to the Auditor Local Evaluation. It sees the ALE as an integral part of the process of becoming a high performing organisation and has worked hard over the last year to identify, implement and embed improvements. In particular, the PCT uses ALE as an improvement tool which has been mainstreamed into management processes.
- 24 I have judged the PCT as reaching level 3 performance in financial management, financial standing and value for money, and level 2 performance in financial reporting and internal control. The improvements in financial management and value for money in particular have enabled the PCT to move from an overall 'level 2' to a 'level 3'.
- 25 I issued a detailed report supporting my assessment and highlighting areas for further improvement to the PCT in September 2008. Key areas for action include the development of the PCT's financial reporting and internal control arrangements, and engaging local communities and other stakeholders to make a reality of the medium and longer term financial strategy to bring the local economy into sustainable financial balance.

Table 1 ALE scores

Year on Year performance has improved

Theme	2005/06 Score	2006/07 Score	2007/08 Score	Commentary
Financial reporting	2	2	2	Maintained
Financial management	2	2	3	Improved
Financial standing	3	3	3	Improved
Internal control	2	2	2	Maintained
Value for money	2	2	3	Improved
Overall Score	2	2	3	Improvement

Note: 1 = inadequate and below minimum standards; 2 = adequate; 3 = performing well; and 4 = performing strongly

- 26 From 2008/09 the ALE assessment will be replaced by a new Use of Resources (UoR) framework, which is wider in scope. Under this new framework, the PCT will need information systems in place that allow it to assess, effectively manage and report its environmental impact and use of natural resources. These areas have not been formally assessed before. The PCT is already starting to plan for this assessment and has carried out an initial review against the key lines of enquiry to identify where further improvements can be made.

Financial standing

- 27 The PCT has arrangements in place to manage its spending within its available resources and met all but one of its statutory financial targets. The PCT did not achieve the Better Payment Practice Code target of paying all undisputed invoices within the due date. The PCT's payment performance deteriorated in 2007/08 due primarily to the introduction of a new continuing care payments system. An action plan has been developed to address this.
- 28 The PCT maintained its ALE score of 3 for financial standing. It has demonstrated consistent good management of its finances within a difficult local health economy; has a history of meeting its financial targets and has no underlying deficit. However, the absence of clear notable practice and a reliance on an unadjusted accounting error of £1.8m to achieve the forecast year end financial position prevented the PCT from scoring level 4.

- 29 Going forward the PCT needs to generate savings of £5.3m to meet its financial targets in 2008/09 and will need to generate significant savings to maintain the recurrent underlying surplus at £10m through 2009/10. Continued close and robust monitoring of financial performance and the delivery of significant savings plans will be essential if the PCT is to deliver its future financial targets.

Specific risk-based work

- 30 In 2007/08 I carried out specific audit reviews on the following.
- The effectiveness of financial management within the PCT and across the strategic health authority area.
 - The effectiveness of the arrangements to tackle health inequalities.
 - Progress in implementing practice based commissioning.
 - The scope for efficiencies identified by our Improvement investigation data bases.

Financial management

- 31 In January 2006 we issued a Public Interest Report on the Surrey and Sussex health economy because of its significant financial problems. This emphasised the need to make improvements to financial management and recovery processes, to increase the level of board ownership and to make some radical changes within the economy.
- 32 I issued two reports on financial management during 2007/08. The first focussed on the progress across the Strategic Health Authority area towards sustainable financial recovery and the second assessed the effectiveness of the new structures and financial management arrangements at the PCT.
- 33 At the wider strategic level, my review concluded that the overall financial culture in the health economy supported the move towards sustainable financial recovery. There were generally adequate or good levels of financial literacy within organisations and financial recovery plans were subject to regular challenge. However, in most cases, the extent of board challenge was assessed as adequate rather than good and there remains scope to ensure that the culture of good financial governance and leadership is translated into effective executive action. Across the health economy I identified the need for improvements in:
- the monitoring frameworks for service level agreements;
 - the effectiveness of cost profiling; and
 - investment appraisal and post investment assessments.
- 34 At a local level, the PCT has adopted clear strategic and operational objectives in relation to both its finances and the finance function. Good progress has been made in the pursuit of these objectives following the strengthening of the capacity of the finance directorate. Enhanced financial management arrangements are helping to facilitate better commissioning by providing more detailed information for the integrated teams and those working at locality level. These strengthened arrangements helped the PCT to improve its financial management ALE score from level 2 to level 3.

PCT's use of resources

Tackling health inequalities

- 35** Tackling health inequalities is a new formal requirement on both local authorities and PCTs and addressing them is likely to involve significant expenditure of public money in both sectors. It is essential that partners work together effectively to deliver value for money.
- 36** My review found the PCT and the Council have made good progress in establishing joint strategic arrangements to tackle health inequalities. A joint Health Inequalities Strategy is in place for 2007-2011 that reflects national priorities and local health need and which is informed by a joint needs analysis. Leadership is well established with the appointment of a single Director of Public Health across the Council and the PCT who takes the lead in tackling health inequalities. Good use is being made of available data and intelligence from a number of expert sources and the PCT has increased its investment in tackling health inequalities in 2007/08 and 2008/09.
- 37** However, performance monitoring and reporting at both the PCT and the Council could be improved. Targets are not always specific, measurable, achievable, reliable and time-bound (SMART), making it difficult to measure success. Data is not always broken down to the local level and is therefore not consistently robust enough to inform SMART targets and effective performance management. Instances of inaccurate reporting against the achievement of targets was identified (for example, the MRSA target), and health inequality outcomes are not routinely included in performance reports to demonstrate effectiveness or value for money. Improved capture of data and shared access between partner organisation data bases would facilitate improved intelligence and performance management on an area-wide basis.
- 38** Commissioning for tackling health inequalities is in the early stages of development and needs to mature to drive service development and contribute to reducing health inequalities. Engagement with the local mental health provider also needs to improve to enable the local health economy to tackle some of the key local health inequalities.

Practice based commissioning

- 39** The main aim of Practice Based Commissioning (PBC) is for service redesign to be led by those closest to patients who are therefore in the best position to identify need. The PCT has made progress in implementing PBC but further work is required to encourage GPs to take ownership for identifying and recommending local service redesign to improve patient care.

Improvement investigation

- 40** Comparative data on performance is an important tool for achieving improvement. My improvement investigation work confirmed that overall, the PCT is a low spending body compared to PCTs nationally and the regional cities group. However, it experiences comparatively higher spend in the areas of dental, trauma and injuries, poisoning, neonates, general medical services, healthy individuals and social care. There is scope for further investigation into these areas to understand the reasons for this.

Work mandated by the Audit Commission

- 41 In 2007/08, the Audit Commission mandated work nationally on Payment by Results (PbR) and the National Fraud Initiative.

Payment by Results

- 42 The Payment by Results (PbR) Data Assurance Framework is designed to support the improvement of data quality standards that underpin the accuracy of coding and pricing under PbR. The national results of the 2007/08 PbR audits confirm that the national average error rate for accurately coding Healthcare Resource groups (HRGs) (which drive the tariff paid for treatments) was 9.4 per cent. The upper quartile of errors was 12 per cent and the lower quartile was 4 per cent. The error rate at Brighton and Sussex University Hospitals Trust (BSUHT) at 13 per cent was therefore among the highest found nationally. As coding errors impact on the payments made to the Trust, the PCT should monitor closely the actions taken by BSUHT to improve coding accuracy.

National Fraud Initiative

- 43 The National Fraud Initiative is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud.
- 44 In total there were seven data matches for the PCT which required investigation. All were investigated and no errors or fraudulent activity were identified.

Closing remarks

- 45 I have discussed and agreed this letter with the Chief Executive and the Director of Finance and will provide copies to all Board members.
- 46 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the PCT during the year.

Table 2 Reports issued

Report	Date of issue
Audit plan	March 2007
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for money conclusion	June 2008
Final accounts memorandum	September 2008
Auditor's local evaluation	September 2008
Annual audit letter	October 2008
Review of financial management	January 2008
Improvement Investigation	March 2008
Tackling health inequalities (phase 1)	June 2008
Practice based commissioning follow up	August 2008

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- 47 The PCT has taken a very positive and constructive approach to our audit. I wish to thank the PCT's officers, directors and non-executive directors for their constructive support and co-operation during the audit.

Paul Grady
District Auditor
October 2008

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
4	R1 Finalise and implement the plans to strengthen the arrangements for financial reporting and internal control.	H	Director of Finance	Yes	The PCT has agreed a robust action plan in response to the recommendations arising from the final accounts audit. In addition, a replacement Assistant Director of Finance has been appointed, which will build increased capacity.	30 Sept 2008
4	R2 Identify fully the savings required to meet financial targets and ensure performance against savings plans is monitored robustly.	H	Director of Finance	Yes	These stretch targets are being closely monitored by both the Board and the Delivery Board, on a monthly basis.	30 Sept 2008
4	R3 Improve the scrutiny and performance monitoring arrangements for health inequalities to raise awareness of performance and outcomes achieved to drive through the service changes required to reduce inequalities.	H	Chief Executive	Yes	This has been actioned through the Executive Team, led by the Director of Public Health (a joint post with BHCC). Practice-based Commissioners and BICS have also been engaged as part of the process of preparing the Strategic Commissioning Plan and Annual Operating Plan.	30 Oct 2008
4	R4 Encourage and engage GP's, through Practice Based Commissioning, to take ownership for identifying and recommending local service redesign to improve patient care.	H	Chief Executive	Yes	Both Practice-based Commissioners and BICS have been integral to the development of the Strategic Commissioning Plan, and will be more fully engaged in the PCT planning process. The PCT believes that PBC will be the real source for robust service redesign to improve local care.	31 Mar 2009

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