

Annual Audit Letter

Gloucestershire Primary Care Trust

Audit 2007/08

December 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 The Primary Care Trust's (PCT) arrangements for preparing its financial statements have improved significantly this year. There were no material issues to bring to the attention of Directors and I issued an unqualified 'true and fair' opinion on your accounts on 20 June 2008.
- 2 The PCT has made good progress in securing economy, efficiency and effectiveness in the use of its resources. My assessment this year in the areas of financial reporting, financial management, financial standing, internal control and value for money have all improved resulting in an overall increase in your categorisation to 'performing well'.
- 3 I concluded that the PCT has proper arrangements in place to achieve value for money. I also highlighted that there are significant changes in 2008/09 in our arrangements for assessing the performance of PCTs. The PCT needs to be aware of these changes in order to maintain its position.
- 4 I have undertaken a number of specific risk-based reviews and the main findings are as follows.
 - Payment by Results (PbR) is the national NHS system for paying hospital trusts for the treatment of patients. I examined the data quality arrangements and patient coding information at Gloucestershire Hospitals Foundation Trust which underpins the amount of money paid to it by the PCT. Coding errors at the Hospitals Trust were below average and there were no significant matters to bring to the attention of the Board.
 - The PCT's approach to establishing an arms length organisation for community services is developing although I concluded in June 2008 that there was much further to go before the objective is achieved.
 - The PCT has been working effectively with key stakeholders to produce and implement a demand management and long term conditions strategy for Gloucestershire. A number of services have been redesigned to better meet the needs of patients with long-term conditions. However, further work is required to ensure clear links with underpinning strategies such as that for workforce development, to develop shared datasets with partner organisations and implement effective evaluation processes for new services.
 - Information and Communication Technology (ICT) security arrangements, such as the use of passwords, were reviewed by use of a survey. Results from the survey indicate ICT security arrangements are generally good for management and administrative staff, although scope exists to reinforce or establish policies and guidance in certain areas. I intend to roll out the survey with other staff groups within the PCT and to re-run the first survey to gauge progress over time.

Purpose, responsibilities and scope

- 5 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 during the course of the year to assist the PCT in meeting its responsibilities.
- 6 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.
- 7 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.
- 8 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.
- 9 Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health Check.
- 10 This letter summarises the significant issues arising from both these areas of work and highlights the key areas 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

- 11 I issued an unqualified opinion on the PCT's accounts on 20 June 2008, ahead of 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 to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.
- 12 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 this report on 19 June 2008 and the main issues are highlighted below.

Accounting issues

- 13 I reported that the PCT's arrangements for preparing its financial statements have improved significantly this year. There were no material issues to bring to the attention of Directors and I issued an unqualified 'true and fair' opinion on your accounts on 20 June 2008. The PCT met its statutory financial targets in 2007/08.
- 14 I made a small number of recommendations for review by the PCT, which should be taken forward and considered in 2008/09. These concerned:
- improving the quality of the working papers to support the financial statements next year by ensuring all statements are cross referenced to supporting working papers and evidence is provided for all disclosure notes contained within the financial statements;
 - improving the efficiency of the audit by ensuring that adequate resources and finance staff are available to respond in a timely manner to queries on the financial statements; and
 - reviewing the way the PCT accounts for the costs of partially completed hospital treatments because there is an inconsistent approach being adopted by the PCT and by the Gloucestershire Hospitals Trust.

PCT's use of resources

- 15** 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. I do this by considering the PCT's arrangements in eleven specific areas including, for example, the arrangements to manage and improve value for money. I also carry out some specific risk-based work to support my judgements on the PCT's use of resources.
- 16** 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

- 17** I concluded that the PCT had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Auditor's Local Evaluation (ALE) judgement

- 18** I assessed the PCT's arrangements in five themes and applied for each a scored judgement on a 1 - 4 scale. I issued a scored interim report supporting my assessment and highlighting areas for improvement to the Director of Finance on 15 July 2008, and issued the final report on 10 September 2008. The final scores for each theme compared with last year are set out in table 1 below.

Table 1 ALE scores

The PCT has made significant improvement in 2007/08

Theme	Assessment	
	2007/08	2006/07
Financial reporting	2	1
Financial management	3	2
Financial standing	3	2
Internal control	3	2
Value for money	3	2
Overall assessment	3	2

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

PCT's use of resources

- 19 There has been a significant improvement in the PCT's use of resources since 2006/07. Importantly, Financial Reporting, assessed as below minimum standards in 2006/07 is now assessed as achieving minimum standards. Overall, the PCT is assessed as 'performing well', a level of assessment which has been achieved by 45 per cent of primary care trusts this year (16 per cent in 2006/07).
- 20 Further information and good practice from other trusts is available to you in the Audit Commission's national report '*Auditor's local evaluation 2007/08: Summary results for NHS trusts and primary care trusts*'.
- 21 The Board should be aware that significant changes are being introduced in 2008/09. Most importantly, judgements will be based on 'outcomes' rather than just having good 'arrangements'. These judgements will also feed into an area based assessment - Comprehensive Area Assessment - of the outcomes achieved by the public bodies in the local area.
- 22 Under these new arrangements, ALE is replaced by a wider Use of Resources assessment. Full details of this new arrangement were sent to NHS bodies in October 2008, following consultation in November 2007.

Specific risk-based work

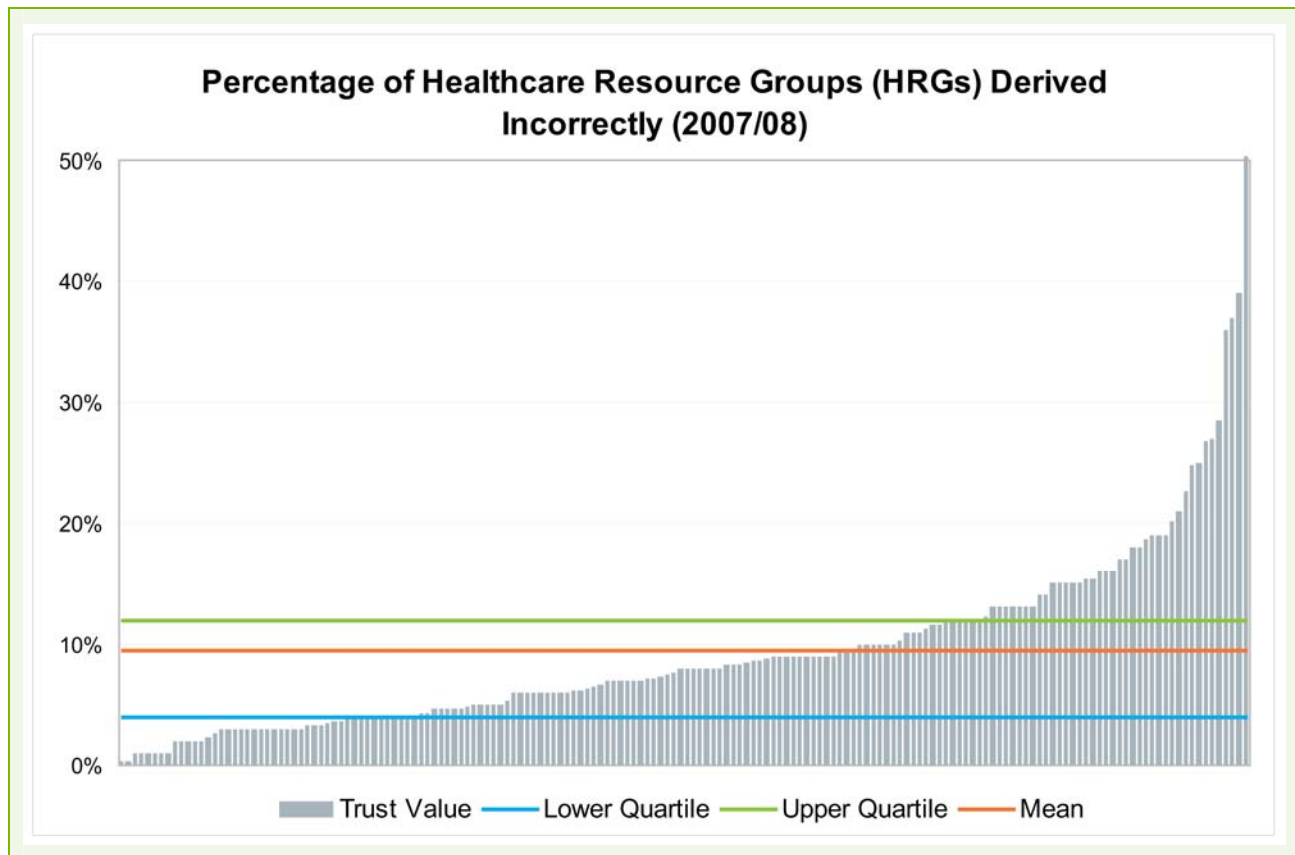
- 23 I carried out specific risk-based reviews in the following areas.
 - Payment by Results - Inpatient review Year 1
 - Care Services Provision
 - Managing Demand and Long Term Conditions
 - Your Business @ Risk survey
 - Improvement Investigation

Payment by Results Assurance Framework

- 24 The aim of Payment by Results (PbR) is to provide a transparent, rules-based system that links payments directly to activity. Accurate monitoring of both payments and activity is important to confirm that the system operates properly based on appropriate tariffs.
- 25 Recorded diagnoses and procedures are key factors of the Healthcare Resource Group (HRG) to which each patient is assigned, and hence the tariff which is applied. Poorly coded data can result in inaccurate HRG assignment and therefore inaccurate payments.

- 26 The PbR Data Assurance Framework is a national rolling programme of work developed, managed and delivered by the Audit Commission which is being delivered for the first time in 2007/08 as part of PCT audits. The work is designed to support improvement of:
- data quality standards that underpin the accuracy of coding and payments under PbR; and
 - data coding and associated arrangements.
- 27 This programme consisted of an independent external review of clinical coding covering all NHS Trusts in England undertaken by qualified clinical coders. The review formed part of PCT audits given their significant commissioning role of services from NHS Trusts.
- 28 Following the review, both the PCT and the hospital trust received two reports. A detailed clinical coding audit report set out the extent to which HRGs were miscoded for a sample of patients across a number of specialties based on the clinical coders' findings. A second PCT report summarised these findings and quantified the financial effect of miscodings on the prices charged by hospital trusts.
- 29 An analysis of the national results of the 2007/08 audits indicate that the national average error rate for HRGs was 9.4 per cent. Hospital trusts in the worst quarter had errors of 12 per cent or more; and the best quarter achieved 4 per cent or less. A national summary is shown in the Figure 1.
- 30 At 6 per cent, the average error rate for Gloucestershire Hospitals NHS Foundation Trust is comparatively low compared with other hospital trusts.

Figure 1 National summary



PCT action

- 31 The new standard contract requires commissioners (primary care trusts) and providers (hospital trusts) to follow up the results of the data assurance framework. The PCT as lead commissioner of the Gloucestershire Hospitals NHS Foundation Trust has discussed the recommendations arising from the review with the hospital trust and actions to address the areas for improvement are in progress.
- 32 Follow up of issues arising from the PbR review each year will be included in the Use of Resources work for future years.

Care Services Provision

- 33 The PCT recognises that recent legislative and policy changes have signalled a new direction of travel for community services. Specifically PCTs now see their future role being largely around commissioning and most are planning to restructure internally to separate the provider and commissioner functions of their business as a first step.

- 34 Our initial review (Stage 1) in June 2008 concluded that some progress has been made by the PCT in developing an arms length organisation for community services although further development was required to achieve an effective separation from commissioning and an effective care service provider.
- 35 Our report highlighted the following areas for further development:
- a well developed strategic vision for care services provision;
 - a configuration for provider services that will deliver contestability;
 - robust financial and governance arrangements for its care services;
 - effective business and commissioning skills to improve care services provision;
 - robust Information Management and Technology (IM & T) for its care services;
 - an appropriate estate management strategy for its care services; and
 - an understanding that care services are delivering value for money and health improvement.
- 36 As the PCT's arrangements continue to evolve we will review again and report our findings in next year's annual audit letter.

Managing Demand and Long Term Conditions for patient care

- 37 Long-term conditions are those conditions that cannot, at present, be cured, but can be controlled by medication and other therapies. People with long-term conditions place considerable demands on services. Effective delivery of these services is paramount whilst ensuring patient choice and quality are maintained.
- 38 With an aging population and increased survival due to new technologies, demand will only increase. For many PCTs, working with social care and other partners, the improvement of care for people with long term conditions and the introduction of demand management schemes are central to achieving a financially sustainable position.
- 39 The PCT has been working effectively with key stakeholders to produce and implement a demand management and long term conditions strategy for Gloucestershire. However, links between this strategy and other key PCT plans such as the workforce strategy are not clear. There is a risk that the strategy is not underpinned by necessary actions to develop the workforce so as to better manage patients with long-term conditions.
- 40 The PCT has recognised the need to invest in information staff and systems to ensure relevant data is available to inform commissioning and service redesign for this patient group and also to identify vulnerable people requiring proactive intervention. Protocols for information sharing between the PCT and partner organisations are being progressed but further work is required to develop an integrated dataset across agencies. A comprehensive, robust and shared information base is critical to better management of long-term conditions.

PCT's use of resources

- 41 A number of services have been redesigned to better meet the needs of patients with long-term conditions (eg Case Management, Integrated Occupational Therapy, Care Home Support Teams). However there is no evaluation framework in place. Failure to effectively evaluate service redesign will compromise the PCT's ability to determine cost effectiveness and patient satisfaction.

Your Business @ Risk

- 42 Your Business @ Risk (YB@R) is a web-based survey that helps auditors and public sector organisations to focus on the business risks associated with information and communications technology (ICT).
- 43 The survey was issued to 410 management and administrative staff and non-Executive Directors in June 2008 with 121 responding (30 per cent). The overall conclusion from the survey was that the PCT's arrangements for managing risks associated with ICT appear adequate or very good. When asked:
- 'How would you describe your organisations IT security?' - 94 per cent indicated arrangements as being adequate or very good.
 - 'Who is responsible for IT security?' - 94 per cent chose 'everybody' which indicates that respondents properly recognise joint responsibility for IT security.
- 44 Below the overall good conclusion, the survey identified a number of areas where scope exists to reinforce or establish policies and guidance, for example, the arrangements which should be followed by staff when they witness other IT users accessing inappropriate material. These matters have been discussed with officers and results of the survey findings are being reviewed by the Trust's Deputy Chief Information Officer (Finance).
- 45 I have agreed to expand this work with a survey for care services staff in the next few months and a re-run of the first survey. Findings from both surveys should enable the PCT to assess its progress in managing the risk associated with ICT security.

Improvement investigation

- 46 I provided the PCT with my analysis of its costs and performance information to contribute to and complement its own benchmarking work. The results were presented to the Professional Executive Committee.
- 47 This information was intended to help the PCT understand better its comparative costs and activities through asking the right questions, such as:
- is the data accurate;
 - are high and low cost areas the result of deliberate policy decisions to invest or disinvest in services;

- if the data is accurate and expenditure is high, is this consistent with the PCT's commissioning strategy and is it matched by better outcomes; and
- if the data is accurate and expenditure is low, is this consistent with the PCT's commissioning strategy and are outcomes satisfactory?

48 The PCT has used this information to assist in its improvement investigations.

National Fraud Initiative

49 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.

50 No frauds were found at the PCT and there are no issues from this work which we need to bring to the attention of Directors.

Closing remarks

- 51 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 11 December 2008. Copies should then be available for all Board members.
- 52 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

All audit reports are seen by the PCT's audit committee

Report	Date of issue
Audit plan	April 2007
Improvement investigation - performance benchmarking	December 2007
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for Money conclusion	June 2008
Care Services Provision - Stage 1 review	June 2008
Payment by Results assurance - Inpatients (Gloucestershire Hospitals NHS Foundation Trust)	July 2008
Your Business @ Risk	September 2008
Auditor's local evaluation	September 2008
Managing Demand and Long Term Conditions	October 2008
Annual audit letter	December 2008

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- 53 The PCT has taken a positive and constructive approach to our audit. I wish to thank the PCT's staff for their support and cooperation during the audit.

Stephen Malyn
District Auditor
December 2008

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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