



HEALTHCARE

Annual Audit Letter
2007/08

South Staffordshire PCT
3 September 2008

AUDIT

Content

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This report is addressed to the PCT and has been prepared for the sole use of the PCT. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document. External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Saverio Della Rocca who is the engagement lead to the PCT or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by: Phone: 0844 798 3131 [Local rate call] Email: complaints@audit-commission.gov.uk Website: www.auditcommission.gov.uk/aboutus/contactus

Textphone (minicom): 020 7630 0421 Post: Pauline Painter, Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Executive Summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from the work that we have carried out during 2007/08 at South Staffordshire PCT. Although this letter is addressed to the directors of the PCT, it is also intended to communicate those issues to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of the PCT to publish the letter on the PCT website at <http://www.southstaffordshirepct.nhs.uk>. Our letter highlights areas of good performance and highlights recommendations to help you further improve performance. A summary of our key recommendations drawn from our reports is summarised in Appendix 1. We have reported all the issues in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 2.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*). Under the *Code* we are required to review and report on your:

- **Use of resources** - that is whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources. Our work in this area is summarised in Section 2 of this letter.
- **Accounts** – that is the Financial Statements and the Statement on Internal Control. Our opinion highlights whether the published accounts present a true and fair view of the PCT's financial affairs. This work is summarised in Section 3.

Key Messages

The key areas which we wish to draw your attention are as follows:

- We issued an unqualified opinion on your accounts on 20 June 2008. This means that we believe the accounts give a true and fair view of the financial affairs of the PCT and of the income and expenditure recorded during the year. We received a set of draft accounts on the 1 May 2008. The quality of the PCT files and working papers were of a good overall standard. The responsiveness of the PCT's staff to audit queries was good with most audit queries being resolved on a timely basis. This contributed to an efficient audit which met the deadlines set by the Department of Health.
- The completeness and depth of the PCT's ALE self-assessment was good and, in most cases, supported by sufficient evidence. This enabled us to fairly evaluate the PCT's performance, against the key criteria. Our assessment against the five criteria resulted in good scores of three. These scores represented an improvement on the previous year.

Future Issues

In 2008/09 the PCT faces a number of challenges. These challenges include meeting national targets, such as the 18 week wait which will draw on engagement from the Staffordshire health economy, reducing MRSA and other hospital acquired infections and reducing health inequalities.

The PCT is in the process of addressing the requirements of World Class Commissioning assessment, which will require substantial management time and focus. The PCT must consider its preparedness, capacity and capability to meet these challenges, whilst maintaining the delivery of national and local objectives.

Other ongoing financial challenges for the PCT during the year include the implementation of IFRS across the NHS in 2009/10 with 2008/09 comparatives being restated in the Summer of 2009. In addition, there is continued pressure on NHS organisations for a more streamlined year end process. As a result, the accounts submission date for the 2008/09 annual accounts has been moved forward to 23 April 2009 with a deadline for audit opinions to be issued of 12 June 2009.

The PCT has new External Auditors from the 2008/09 year. We have enjoyed our period as the PCT's External Auditors and in a relatively short period of time seen the organisation develop into a much stronger body.

Use of resources

The main elements of our use of resources work are:

- **Auditor's Local Evaluation (ALE)** - we assess how well you manage and use financial resources by providing scored judgements on arrangements in five areas (Financial Reporting, Financial Management, Financial Standing, Internal Control, and Value For Money). We also follow up prior year recommendations to support this conclusion.
- **Value for money conclusion** - we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. In part this is based on the ALE assessment and it is also based on the local reviews carried out.
- **Specific risk based work** - we perform local reviews based on a risk assessment of issues facing you. This year these reviews included a red risk review of Provider Services and local risk reviews of practice based commissioning and the PCT as a provider. The key findings from this work are summarised below.

Element of work	Key findings												
Auditors Local Evaluation	<p>Our assessment of South Staffordshire PCT against the five specified areas resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td>Financial reporting</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Financial management</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Financial standing</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Internal control</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Value for money</td> <td style="text-align: center;">3</td> </tr> </tbody> </table> <p>The details of our findings and recommendations in these areas will be reported to the Audit Committee in our 2007/08 ALE report which will be issued in September 2008.</p> <p>A number of strengths were highlighted in our ALE assessment including;</p> <ul style="list-style-type: none"> • the PCT has developed a Medium Term Financial Strategy for the period 2007 to 2011. This is linked to the NHS operating framework for 2008-09 and the outlined commissioning intentions for services to the people of South Staffordshire; • the PCT delivered a surplus of £4.6m for 2007-08. This is in accordance with SHA control total and equates to 0.5% of the RRL; • the PCT has adopted strong risk management arrangements and it has an Assurance Framework in place mapped to its strategic objectives; and • the final accounts working papers were of a good overall standard. <p>The key factors which limited scores were;</p> <ul style="list-style-type: none"> • the financial controls must be strengthened and adhered to on key financial systems to ensure that where there were a number of significant weaknesses highlighted in internal audits these are minimised; and • the PCT should only use non-recurrent financial measures on an infrequent basis or as part of a longer term planned approach to address variances. <p>For 2008/09 the ALE framework is being withdrawn and replaced by a new framework for auditors' use of resources (UoR) work. The new UoR will be a generic framework to inform Comprehensive Area Assessment (CAA) from 2009 and feed into other relevant performance assessment frameworks as appropriate. It is essential that the PCT's self assessment is carried out early with contribution from the entire organisation. However, much of the work undertaken, in response to the World Class Commissioning assessment, should put the PCT in a good position to respond to the new UoR assessment.</p>	Area	Score	Financial reporting	3	Financial management	3	Financial standing	3	Internal control	3	Value for money	3
Area	Score												
Financial reporting	3												
Financial management	3												
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Value for money	3												
Specific risk based work	<p>We identified two national risk areas for local review:</p> <p>Practice Based Commissioning (report issued August 2008)</p> <p>The key theme arising for this review is the need for the PCT to stimulate higher levels of engagement by GPs in PBC, such as involvement in key commissioning decisions and developing new care pathways. Currently there are mixed levels of engagement both at GP level and at a consortia level.</p>												

Use of resources (continued)

Element of work	Key findings
Specific risk based work	<p>Practice Based Commissioning (continued)</p> <p>A number of factors were identified which impact upon the differing levels of engagement including the length of time different consortia have been operating, the level of support available to practice based commissioners, historic financial deficits retained within consortia, GPs being able to see the impact that PBC has had and consortia seeing tangible benefits from PBC savings where they have been generated.</p> <p>In order to stimulate higher levels of engagement for PBC the PCT needs to create an environment where:</p> <ul style="list-style-type: none"> •GPs are adequately supported and encouraged to access the resources they need to undertake PBC; •GPs can see and celebrate the positive impact that PBC has had; and •consortia are able to benefit from PBC savings generated and reinvest in patient services in line with overall PCT strategies. <p>The PCT as a Provider (report to be issued September 2008)</p> <p>Provider services play a crucial role in many aspects of healthcare including promoting health, preventing illness, managing long term conditions and joint working with social services, the voluntary sector and others. GPs and other health professionals working in primary care are the gatekeepers for all other services provided by the NHS.</p> <p>The PCT has a vision for the future configuration of its services and has made good progress in establishing its provider function as an Arms Length Management Organisation (ALMO) separate from the PCTs commissioning functions.</p> <p>Work is ongoing to further develop the Provider Services function. Over the coming months the PCT needs to engage stakeholders in its vision for Provider Services, develop the vision into a Provider Services strategy and have a structured and robust option appraisal process for the longer term configuration model for Provider Services.</p> <p>Good progress has been made in developing the PCTs financial and governance arrangements to secure the independence of Provider Services but arrangements can be further strengthened. Further work is also required to develop measures to assess the performance and effectiveness of the PCTs provider function in the context of its commissioning and health improvement aspirations.</p> <p>The key actions from our review that the PCT should address include:</p> <ul style="list-style-type: none"> •Further develop a detailed strategy for delivery of provider and community services which should be approved by the Provider Management Board and PCT Board; •Communicating the Provider Services vision to a wider range of stakeholders; •Provider Services developing its own IT Strategy and framework for monitoring data quality that builds on existing processes within the PCT with data quality being incorporated into performance reporting to the Provider Management Board; •Consolidating the Practice Based Commissioning Consortia strategies for community based services to provide clarity on how commissioning intentions align with the PCT's overall objectives and corporate strategies; and •Undertaking market analysis to understand the relative competitiveness of provider services and facilitate the function in identifying its "core" market and service offering.

Use of resources (continued)

Element of work	Key findings
Value for money conclusion	We issued an unqualified value for money conclusion for 2007/08. This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

All recommendations arising from this work have already been communicated to you. A summary of the most significant recommendations, along with the PCT management's response, is provided at Appendix 1.

The Audit Commission is a signatory to the concordat between bodies inspecting, regulating and auditing healthcare. All recommendations from our use of resources work are loaded onto the concordat website at www.concordat.org.uk and an annual update of progress against these plans will be provided to the Audit Committee.

Financial statements

Audit opinion

We issued an unqualified opinion on your accounts on 20 June 2008. This means that we believe the accounts give a true and fair view of the financial affairs of the PCT and of the income and expenditure recorded during the year. We have also confirmed that you have complied with your regularity requirements and with Department of Health requirements in the preparation of your Statement on Internal Control (SIC) and that we are not aware of any inconsistencies with the information that you have recorded within this statement and our other work.

Before we give our opinion on the accounts, we are required to report to your Audit Committee any significant matters identified. We did this in our ISA 260 report (dated 12 June 2008) and the key issues are summarised here.

Accounts production and/or adjustments to the accounts

- We received a set of draft accounts on 1 May 2008 in accordance with the national deadline. The draft accounts we received were of an overall satisfactory standard with very few presentational errors identified.
- Working papers were provided at the start of the audit, and were of a good standard. The one main area for improvement was that the quality of the analytical review could have been enhanced with more detail provided on key analytical movements between years.
- The responsiveness of the PCT's staff to audit queries was good with audit queries being generally resolved on a timely basis. This contributed to an efficient audit which met the deadlines set by the Department of Health.

Financial Standing

NHS bodies are given financial targets every year. One of these, the operational financial balance duty, is statutory, which means you must achieve it. The others are administrative, which means you should achieve them. Your performance against the targets is outlined below.

Target name	What it means	Your performance
Operational Financial Balance	Keeping expenditure payable for the year within the revenue resources allocated to you	✓ You reported a surplus of £4.6m against a Revenue Resource Limit of £754.1m.
Cash Limit	Keeping the requirement for cash financing within a limit set by the Strategic Health Authority	✓ You met your cash limit with no over or under spend.
Capital Resource Limit	Keeping net capital expenditure within a limit set by the Strategic Health Authority	✓ You remained within the CRL by £0.7m.
Provider Full Cost Recovery	Recovering full costs in relation to your provider function.	✓ You recovered the full cost of provider services.
Better Payment Practice Code	Paying at least 95% of all creditors within 30 days of receiving an invoice from them	✗ For non-NHS creditors you reported paying 88% by number and 93% by value within 30 days For NHS creditors you reported paying 88% by number and 97% by value within 30 days

Appendix 1: Key recommendations

This appendix summarises the main recommendations (high risk ones) that we have identified during 2007/08, along with your response to them.

Recommendation	Management Response / Timescale for implementation
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The following recommendations have been agreed

<p><i>Practice Based Commissioning</i></p> <ol style="list-style-type: none"> 1) The PCT should review planned engagement with GPs to ensure that the conflicting demands are appropriately managed and GP time is directed to areas of priority. Where appropriate, localities should work with GPs to address any barriers preventing them from fulfilling their commissioning commitments. 2) The PCT should work with PBC consortia in order to understand their needs and ensure that they are adequately supported. 3) The PCT should seek to strengthen arrangements for the commissioning of services by practice based commissioners from its own provider arm. These should be supported by appropriate information systems and KPIs for monitoring of service delivery. 	<p>All Agreed</p> <p>1) Sue Price/ Geraint Griffiths September 2008</p> <p>2) John Wickes September 2008</p> <p>3) Sue Price/ Geraint Griffiths September 2008</p>
<p><i>The PCT as a Providers</i></p> <ol style="list-style-type: none"> 1) The Provider Services of the PCT should develop and complete its action plan in a timely manner. The plan should include consideration for the following: <ul style="list-style-type: none"> -integrated business planning; -programme of systematic service reviews; -determination of appropriate information for managing operations, including finance, activity and HR -identify competencies and develop skills for the workforce; and -secure support for responding to tender processes. 2) The provider services arm of the PCT should have a strategy or action plan for consulting, communicating with and managing feedback from stakeholders, and should monitor implementation. 3) The Provider Services of the PCT should develop SLAs for internal support services. 4) The Provider Services of the PCT should identify key outcomes and milestones as a part of the overall action plan. 	<p>To be confirmed</p>

We did not make any recommendations during the year which were not fully accepted by management.

Appendix 2: Reports issued

Report	Date issued
Audit Plan	April 2007
Interim report and Auditor Local Evaluation (phase one)	April 2008
ISA 260 report to those charged with governance	June 2008
Practice Based Commissioners	August 2008
PCTs as Providers	To be issued in September 2008
Auditor Local Evaluation report	To be issued in September 2008
Annual Audit Letter	September 2008