

# Annual Audit Letter

Brent Teaching Primary Care Trust

Audit 2007/08

September 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

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## Key messages

- 1 It has been a challenging year for Brent Teaching Primary Care Trust (the PCT). At the end of March 2007 the PCT reported a £25 million deficit which precipitated an independent review of the PCT's finance and governance arrangements (the *Taylor report*) which was commissioned by NHS London and published in March 2008. The report identified major weaknesses in internal control and governance arrangements which were compounded by significant capacity issues with a high level of interim staff. In addition, the PCT identified that funding of continuing care was also major area of concern.
- 2 During the second half of 2006/07 and throughout 2007/08 the PCT put in place a financial recovery plan (the turnaround plan). Savings realised through the turnaround plan were sufficient to ensure expenditure in 2007/08 was managed within the PCT's revenue resource limit, resulting in a year-end underspend of £1.7 million. In addition the PCT repaid £15 million of its deficit to NHS London, £5 million more than planned. The PCT also met its other financial performance targets; to remain within its capital resource limit, remain within its cash limit and to achieve full cost recovery of its directly provided services. I commend the PCT for its financial achievements against this backdrop. However it is important that the momentum for change stimulated by the Taylor report is maintained in future periods.
- 3 Financially, the PCT is now in a substantially stronger position than it was 12 months ago. For 2008/09 the PCT is budgeting for a surplus of £12.4 million whilst maintaining a contingency fund of approximately 1 per cent of expenditure. This includes plans to repay the remaining brought forward deficit of £10 million. Uncertainty about continuing care costs has now been resolved and the PCT has agreed with the Council on how future continuing care costs should be met.
- 4 During 2007 the PCT strengthened its governance arrangements with the appointment of a new Chair and Non Executive Directors. A permanent Chief Executive was appointed in October 2007 and permanent appointments were made to the majority of the Director level posts thereafter. In addition, a review of governance structures has been conducted and changes made to committee structures to ensure better alignment with priorities.
- 5 However, there were high levels of interim staff below Director level throughout the year. This presents a risk that organisational knowledge and capacity will be compromised should key staff leave the organisation. The PCT has recognised this risk and is implementing action plans to reduce reliance on interim staff.

- 6 Performance against NHS targets during the year has been mixed. The focus on realising financial savings has had a direct impact on organisational performance in some areas, such as *smoking cessation*. A further key NHS target missed was *accident and emergency waiting times* and, overall, the PCT declared non-compliance with 14 of the 44 Department of Health's core standards. However, other key targets were met including *18 week referral to treatment*.
- 7 The internal control environment remains in need of strengthening with a *limited* annual assurance statement for 2007/08 issued by Internal Audit. The production of the annual accounts also proved to be challenging, with key deadlines for submission being missed. Despite this no material adjustments to the accounts were required and an unqualified audit opinion was issued on 4 July 2008. Changes to the way accounts are produced in future years will increase the pressure on the accounts production process. A certificate to close the 2007/08 audit cannot be issued until the previous auditors have closed the 2006/07 audit.
- 8 I have finalised the Auditor Local Evaluation scores for the year which reflect the arrangements in place for the whole year to 31 March 2008. The overall score is '1' (*below minimum standards*) but it is acknowledged that the PCT has made significant changes in recent months which put it in a strong position to improve these scores in the future.
- 9 I also carried out specific work on *Better Commissioning* and *Payment by Results*. My work on *Better Commissioning* concluded that there are weaknesses in the Commissioning arrangements that could inhibit the PCT from achieving its strategic objectives and realising value for money. My work on *Payment by Results* concluded that there were significant inaccuracies in the clinical coding at the PCT's main provider but the errors netted off against each other resulting in an immaterial impact overall.
- 10 As a result of my work I issued an *adverse* conclusion on the PCT's arrangements for securing economy, efficiency and effectiveness (the *value for money conclusion*).
- 11 The new leadership have made significant improvements the governance and financial management arrangements of the PCT. There is still much to do but the PCT now has a strong footing for the future. I would like to thank the PCT for its positive and constructive approach to working with the auditors and implementing audit recommendations.

# Purpose, responsibilities and scope

- 12** This Annual Audit 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.
- 13** 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](http://www.audit-commission.gov.uk).
- 14** 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](http://www.audit-commission.gov.uk).
- 15** 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.
- 16** Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health Check.
- 17** 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

- 18** I issued an unqualified opinion on the PCT's accounts on 4 July 2007. This was two weeks after the deadline set by the Department of Health. The reason for this delay was the adoption of a fully substantive approach due to weaknesses in the control environment, late submission of the accounts for audit, and the poor quality of some working papers and audit trails which led to a large number of audit queries.
- 19** My audit opinion was unqualified and there were no material adjustments to the 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.
- 20** 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 my initial report on 12 June 2008 with a further update provided to all Audit Committee members on 30 June 2008.

## Accounting issues

- 21** Working papers provided to support the accounts were in some cases of poor quality with unclear audit trails which resulted in a large number of audit queries. Due to the quantity of audit queries they were not always responded to within agreed timescales. These pressures, together with an earlier audit deadline, combined to result in a two week overrun against the deadline for the audited accounts to be submitted to the Department of Health.
- 22** The PCT needs to improve its procedures in relation to the production of the financial statements in future years. It has been confirmed that the deadline for the submission of audited accounts to the Department of Health will be moved forward to 12 June 2009. In addition, the NHS is currently committed to adopting International Financial Reporting Standards from 2009/10 onwards which will require significant accounting resources.
- 23** Despite the difficulties outlined, there were no material adjustments to the accounts.

## Recommendations

- R1** Produce good quality working papers and audit trails to support the accounts.
- R2** Plan for the implementation of International Financial Reporting Standards.

# PCT's use of resources

**24** 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.

**25** 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

**26** To reach a conclusion on the PCT's arrangements for securing value for money I assess the arrangements in place during the year against 12 criteria. I concluded that the PCT did not have proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources, therefore I issued an *adverse* value for money conclusion. Table 1 sets out my assessment against each of the criteria.

**Table 1 Value for money conclusion criteria**

	VFM criteria	Met?
1	The PCT has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	No
2	The PCT has put in place channels of communication with patients and their representatives, and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	No
3	The PCT has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	No
4	The PCT has put in place arrangements to monitor the quality of its published performance information, and to report the results to board members.	No
5	The PCT has put in place arrangements to maintain a sound system of internal control.	No
6	The PCT has put in place arrangements to manage its significant business risks.	No
7	The PCT has put in place arrangements to manage and improve value for money.	No
8	The PCT has put in place a medium term financial strategy, budgets and a capital programme that is soundly based and designed to deliver its strategic priorities.	No
9	The PCT has put in place arrangements to ensure that its spending matches its available resources.	Yes
10	The PCT has put in place arrangements for managing performance against budgets.	Yes
11	The PCT has put in place arrangements for the management of its asset base.	No
12	The PCT has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes

- 27 For criteria to be met arrangements have to be in place throughout the financial year. I acknowledge that improvements have been made in some of these areas towards the end of the financial year.
- 28 Recommendations in relation to my value for money conclusion have been made as part of my Auditor Local Evaluation and Better Commissioning reports (see below).

### Auditor's Local Evaluation judgement (including financial standing)

- 29 I assessed the PCT's arrangements in five themes. I scored each theme from 1 to 4 (1= inadequate and below minimum standards, 2 = adequate, 3 = performing well and 4 = performing strongly). I issued a detailed report supporting my assessment and highlighting areas for improvement to the PCT in June 2008. This report covered the *financial management*, *internal control* and *value for money* themes. A final report covering the financial reporting and financial standing themes will be issued in September 2008.

**Table 2 ALE scores**

Theme	Assessment	Conclusion
Financial reporting	1	The accounts were submitted late and working papers and responses to audit queries require improvement. For further details see page 6.
Financial management	1	There was no medium term financial strategy in place during the year, and the capital budget was not approved until after the beginning of the year. There was no estates strategy in place during the year.
Financial standing	2	The PCT achieved its statutory financial targets for 2007/08 and is predicting to remain within the revenue resource limit for 2008/09. There is a brought forward deficit with NHS London for 2008/09 of £10.2m following repayments of £15 million in 2007/08. See paragraph 29 below.
Internal control	1	The Internal Control environment was weak during the year, with gaps in the Board Assurance Framework and risk management arrangements. Internal Audit issued limited assurance on all audits undertaken in the year.
Value for money	1	Consultation and engagement with stakeholders was not effective during the year. Commissioning arrangements (see paragraph 30 below) need improvement in certain areas to ensure value for money is achieved. Practice Based Commissioning is also in need of strengthening. Further work can be done to benchmark the PCT to gain an understanding of value for money.
<b>Overall assessment of the Audit Commission</b>	1	

(Note: 1 = lowest, 4 = highest)

### Recommendation

**R3** Implement the recommendations made in our Auditor Local Evaluation report.

#### Financial standing

- 30** The Taylor report commented extensively on the failures in financial management that contributed to the deterioration in the PCT's financial position during 2005/06 and 2006/07. The issues reported included poor budgetary control, failure to achieve planned savings and reliance on accountancy adjustments and one-off savings. These weaknesses have been addressed in the latter part of 2006/07 and 2007/08 resulting in a more robust financial position and improved financial reporting.
- 31** Financially, the PCT is in a stronger position than it was 12 months ago. The brought forward deficit has reduced from £25 million to £10.2 million in 2007/08. For 2008/09 the PCT is budgeting for a surplus of £12.4 million whilst maintaining a contingency fund of approximately 1% of expenditure, or £4 million. This budget includes the repayment of the remaining deficit.
- 32** In previous years there have been concerns over the reported financial position in respect of continuing care costs. However, the PCT has now reached agreement with the Council over the allocation of these historic costs and how such costs should be met in the future.
- 33** The 2008/09 month three finance report shows a net overspend against allocated budgets of £1.2 million which is primarily a result of acute commissioning costs. Therefore it is important that the PCT ensures identified actions as a result of budget variances are effective to achieve the planned surplus.

#### Governance

- 34** The Taylor report identified weak corporate governance as a further factor for the deterioration in the financial position during 2005/06 and 2006/07, including weak scrutiny by the Board, a divided senior executive team and an inexperienced Chief Executive.
- 35** The PCT addressed these weaknesses during 2007 with the appointment of a new Chair in February and Non Executive Directors over the period April to December. A permanent Chief Executive was appointed in October 2007 and permanent appointments to the majority of Director level posts were made thereafter. In addition a review of governance structures has been conducted and changes made to committee structures to ensure better alignment with priorities.
- 36** However, there were high levels of interim staff below Director level throughout the year. This presents a risk that organisational knowledge and capacity will be compromised should key staff leave the organisation. The PCT has recognised this risk and is implementing action plans to reduce reliance on interim staff.

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**Specific risk-based work**

**37** I carried out specific pieces of work under use of resources as follows.

- *Better Commissioning.* A review of commissioning arrangements found a number of areas in need of strengthening, including *delivering strategic and operation objectives through commissioning, patient and public engagement, and demonstration of value for money.* A detailed report including recommendations for improvement was issued in April 2008.
- *Financial Management.* This work was delayed due to turnover of senior staff in year and the publication of the Taylor report. Work is currently ongoing, and the scope of the work has been amended to review the PCT's response to the Taylor report. A draft report is scheduled for August 2008.

**Recommendation**

**R4** Implement the recommendations made in our Better Commissioning report.

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### Payment by Results Assurance Framework

- 38** 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 payments under PbR; and
  - support improvements in coding and associated arrangements.
- 39** This review provides information on the adequacy of controls and identifies areas which may warrant further investigation. This output should not be extrapolated to identify an overall error rate for the Trusts involved for auditing and accounting purposes, or for any 'recovery' for over charging or undercharging work.
- 40** The PCT is the host PCT for services from North West London Hospitals NHS Trust (the Trust). A summary of results is show in the table below.

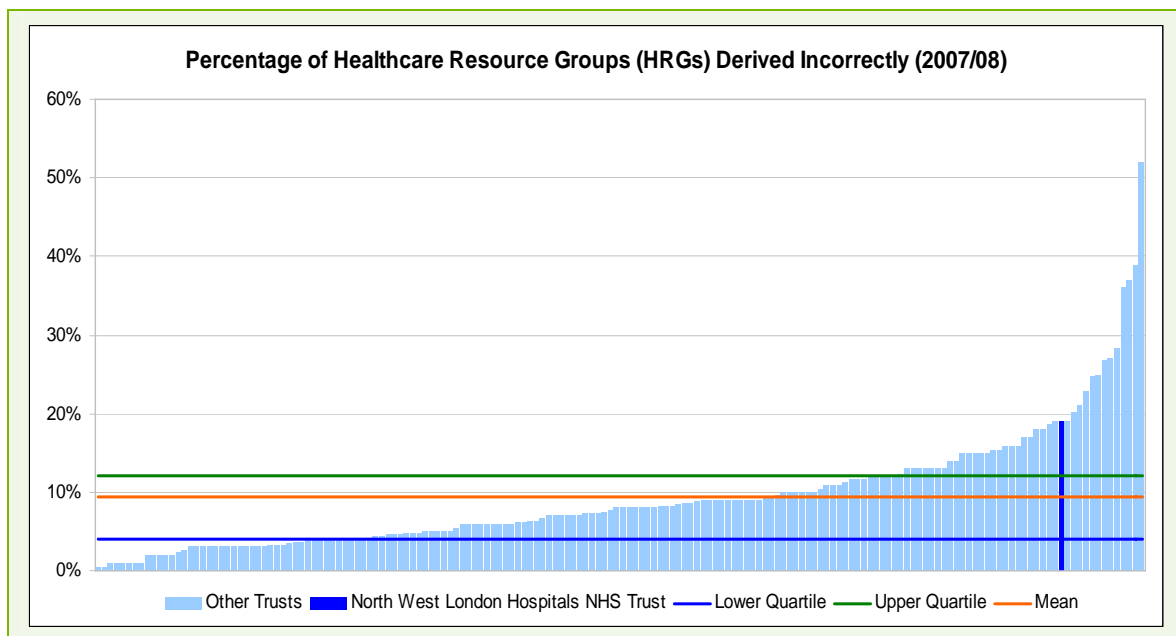
### Table 3 Main findings from areas audited

Our testing was split into four categories. This table details the sample size in each category, the percentage of cases found to be incorrectly classified, and the percentage impact this has on payments to the Trust.

Category	Sample size	% of episodes changing HRG	Net % difference between pre and post audit pricing
Paediatrics	100	16	2
Urology	87	23	(2.5)
Midwifery	58	13	(1.9)
Accident and emergency	29	28	8.1
<b>Total</b>	<b>274</b>	<b>19</b>	<b>0.4</b>

- 41** Based on the sample tested there are significant issues with the accuracy of coding at the Trust although the gross impact on payments is limited, equating to an undercharge to the PCT of £919.
- 42** An analysis of the national results of the 2007/08 audits indicate that the national average error rate for HRGs was found to be 9.4 per cent. The upper quartile of errors was 12 per cent and the lower quartile was 4 per cent. A national summary is shown in the following figure, indicating that the Trust is in the upper quartile for HRGs derived incorrectly.

**Figure 1 National summary**



**PCT actions**

- 43** The PCT should, as host of the Trust, discuss the recommendations with North West London Hospitals and what actions will be taken in response to issues identified. The new standard contract requires commissioners and providers to follow up the results of the Data Assurance Framework. This will be included in the Use of Resources work for future years.

**Recommendation**

- R5** Agree a mechanism with the Trust to follow up issues identified as part of the Payment by Results work.

**National Fraud Initiative**

- 44** 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.
- 45** The PCT received a total of 255 data matches for consideration. The Local Counter Fraud Specialist has completed the majority of work resulting from this exercise. This has resulted in one investigation which has been completed and two cases that have been carried forward for further investigation in 2008/09.

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# Closing remarks

- 46 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 in September 2008 and will provide copies to all Board members.
- 47 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.

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**Table 4     Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit plan	August 2007
Better Commissioning	April 2008
Interim auditor's local evaluation	May 2008
Report to those charged with governance	July 2008
Opinion on financial statements	July 2008
Value for money conclusion	July 2008
Payment by results	July 2008
Final accounts memorandum	August 2008
Financial management	August 2008
Final auditor's local evaluation	September 2008
Annual audit letter	September 2008

- 48 In recent audit visits there has been a noticeable improvement in the culture of the PCT when compared to earlier visits. Officers appear better prepared than in previous audits and clearer about the strategic direction. This places the PCT on a strong footing for securing further improvements. The PCT has taken a positive and constructive approach to our audit throughout the year, and I wish to thank the PCT's staff for their support and cooperation.

Andrea White  
District Auditor  
September 2008

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