

# Annual Audit Letter

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Trafford Primary Care Trust

Audit 2009/10

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

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Summary

**This report summarises the findings from my 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7).**

## **Audit opinion and financial statements**

**1** I issued an unqualified opinion on your 2009/10 financial statements on 10 June 2010. The accounts and working papers were of good quality.

## **Value for money**

**2** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission for each of the relevant key lines of enquiry (KLOE).

**3** I issued a qualified vfm conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in making effective use of natural resources.

## **Current and future challenges**

**4** The PCT faces significant challenges in responding successfully to the Coalition government's plans for reforming the NHS in England. The White Paper 'Equity and Excellence: Liberating the NHS' published in July 2010 sets out radical changes that will abolish all PCTs from 2013. It also will abolish all 10 SHAs and introduce GP consortia to commission most local NHS services.

**5** In line with other NHS bodies the PCT also faces severe financial pressures brought on by the economic downturn and its impact on the public sector. The Coalition government has committed to making efficiency savings of up to £20 billion in the NHS by 2013/14. This includes making management cost savings of over 45 per cent in the same period.

**6** The transition and tough financial position are major challenges for the PCT. It must lead and manage the transition while planning for its own demise. This will require effective leadership and management skills at a time when the PCT has to make big reductions in management costs.

# Financial statements and Statement on Internal Control

**The PCT's financial statements and Statement on Internal Control are an important means by which the PCT accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

**7** I issued an audit report including an unqualified opinion on the financial statements on 10 June 2010.

**8** The accounts presented for audit were free from material error. The PCT's working papers were of a high standard, and there were no significant adjustments required as a result of the audit.

**9** I looked at your compliance with relevant accounting and reporting standards. I agreed with accountants some minor presentational adjustments to the financial statements to meet these standards.

## **Significant weaknesses in internal control**

**10** I did not identify any significant weaknesses in your internal control arrangements.

## Use of resources

**I considered how well the PCT is managing and using its money, time and people to deliver value for money and better, lasting results for patients and taxpayers.**

**I have reported the outcome as:**

- **a scored use of resources assessment; and**
- **the value for money (VFM) conclusion.**

### Use of resources judgements

**11** The Audit Commission has published Key Lines of Enquiry (KLOE) which auditors use in reaching scored use of resources judgements. The KLOE provide consistent criteria for assessing and measuring the effectiveness and efficiency of a PCT's arrangements to deliver value for money.

**12** Using this methodology, I made a judgement for each KLOE using the Audit Commission's current four-point scale. Under this scoring system, level 4 is excellent and level 1 represents a failure to meet minimum requirements.

**13** I took into account, where appropriate, findings from previous value for money conclusion assessments as updated to reflect any changes or improvements. I also took account of other relevant audit work and the results of from other external reviews such as the world class commissioning framework assessment.

**14** Table 1 sets out the PCT's use of resources theme scores. I have summarised the key findings and conclusions for the three themes and underlying KLOE in Appendix 2.

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Table 1: **Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

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## Managing finances

**15** The PCT continued to manage its finances well, and scored a level 3. It has built a disciplined and structured approach, and improved its capability to deliver strategic change. It has taken part in benchmarking exercises, and should use these exercises to identify further opportunities to improve. It needs to ensure there is a continual process of robust challenge to budget holders. This will help to make sufficient future efficiency savings to meet the increasing future financial challenges ahead.

## Governing the business

**16** The PCT has improved its performance under the governing the business theme. I assessed this as performing well (level 3). The PCT has a good performance management framework in place and improved during the year its reporting of performance to the Board. There is scope to improve some reporting of performance in Trafford Provider Services (TPS). Reporting is currently hampered by difficulties in extracting information from the information system used (Lorenzo).

**17** A comprehensive overhaul of governance structures, in the PCT as a whole and in TPS, has brought them into line with national guidance. The structures are now matched better to the needs of the business. But the lines of accountability in the complex governance arrangements for Children and Young People's Service (CYPS) require further clarity.

**18** The PCT redesigned its risk management approach during 2009/10. This has helped to improve delivery of outcomes in the year, and should produce further improvement in 2010/11.

## Managing resources

**19** The PCT has scored an overall level 2 (performing adequately) for the managing resources theme. But within this it did not meet the minimum requirements for making effective use of its natural resources. The PCT needs to demonstrate that it understands and can quantify its use of natural resources. To do this it will need a strategy to reduce its use of natural resources based on:

- an accurate understanding of its main resource use areas, across all of its major in-house operations; and
- a clear understanding of where it can most effectively intervene to reduce its use of natural resources.

**20** The strategy needs to be underpinned by systems and processes to enable the PCT to manage and monitor its performance to reduce the impact on the environment.

**21** The workforce overall is adequately skilled and productive. But sickness absence was higher than the average in other PCTs and was higher in 2009/10 than it was in 2008/09. This was despite the PCT introducing revised absence management arrangements. There has been a good programme of development for staff, including management and director development. However, there was a lack of clarity about the numbers of staff required for each discipline.

**22** I have issued a separate use of resources report that identifies those areas where there is scope to improve.

## **VFM conclusion**

**23** In reaching my conclusion about whether the PCT secures value for money, I again applied the KLOE criteria specified by the Audit Commission.

**24** I issued a qualified vfm conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in making effective use of natural resources. I have set out my conclusions on each of the areas are set out in Appendix 2

## **Risk based performance reports:**

### **Community Safety in Greater Manchester Follow-up - GM Districts**

**25** In 2008 the Audit Commission and KPMG carried out a review of community safety in Greater Manchester. This review focused on how public partners were working together to reduce the impact of alcohol misuse on individuals, communities and agencies.

**26** The follow-up report in 2010 looked at progress on the issues highlighted in the first report and took place in the context of:

- Greater Manchester continuing to experience high levels of crime compared to other similar areas;
- a steady rise in residents' satisfaction with their Council and the police in dealing with crime and anti-social behaviour - but satisfaction is still below its peers; and
- a continuing rise in alcohol consumption and alcohol harm.

### **Greater Manchester wide conclusions**

**27** Good progress has been made in strengthening the links between health and criminal justice agencies. Establishing the Public Protection Commission was an important part of that, and developments in the GM Alcohol Strategy Group will also help. There has also been satisfactory progress in developing a joint picture of the scale of the problem across Greater Manchester. There has been good progress on promoting prevention although, as agencies admit, there is more to do on this.

**28** There has been some progress in sharing information and data, but this has not been strategically driven or systematic. There remains some confusion about the relationship of the Greater Manchester Against Crime (GMAC) Central Team and the GMP analysts based in Divisions. More needs to be done across Greater Manchester to evaluate the success of initiatives and to spread good practice and share learning.

### **Trafford District conclusions**

**29** The Alcohol Steering Group has regularly reported progress against the 2008 action plan to the Business Partnership of the Safer Trafford Board. Progress overall on implementation has been good.

**30** A range of activities have been used to prevent alcohol abuse. These have included marketing campaigns to highlight the dangers of drink-driving, fire risks and associated health problems. Other activities aimed to prevent young people gaining access to alcohol by under age purchase or shoplifting. The main action has been in secondary schools to alert young people to the risks of alcohol use.

**31** There has been a radical overhaul of treatment services. There has been extensive research into learning from what works in practice. This in turn has led to improved strategic planning and commissioning plans.

**32** Less progress has been made on securing and targeting funding. Funding for drugs services can be used for those clients misusing both drugs and alcohol, but there was no extra funding made available for extending the services for alcohol abuse

### **Approach to local value for money work from 2010/11**

**33** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**34** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**35** I will decide a local program of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the PCT in my annual report to those charged with governance and in my annual audit letter.

# Payment by Results data assurance framework

**36** The aim of Payment by Results (PbR) is to provide a fair, transparent, rules-based system for paying trusts, rewarding efficiency and quality. It does this by paying a nationally set price or tariff for each procedure, classified by Healthcare Resource Group (HRG).

**37** Payment by results requires good quality data on costs and clinical activity to be available. This is because:

- The Department of Health (DH) needs reliable cost and activity data to set a fair, accurate tariff.
- Trusts need good quality activity data for billing purposes and accurate knowledge of their costs.
- PCTs pay based on information from trusts and so need to know that data is correct and fair for activity volume and case mix.

**38** The PCT has received regular reports on the results of the PbR audit work at its main provider trusts and national updates direct from the Commission.

**39** In 2009/10, I undertook reviews of inpatient clinical coding data and outpatient data at all of your main providers. I discussed and agreed reports with the host commissioning PCT, which in turn shared reports with other significant commissioning PCTs. Local reports for your providers, are also available for download on the Audit Commission's PbR assurance portal and I publish all results from the audits on the Audit Commission website.

**40** The data reviewed not only affects payments made by the PCT, but also underpins healthcare commissioning in your area. Therefore, the PCT needs to ensure that it builds into contract management arrangements all issues identified from the audits.

**41** Progress on implementing recommendations should be followed up at contract monitoring meetings between PCTs and providers. The PCT should also regularly use the PbR National Benchmarker to identify issues with provider data and performance.

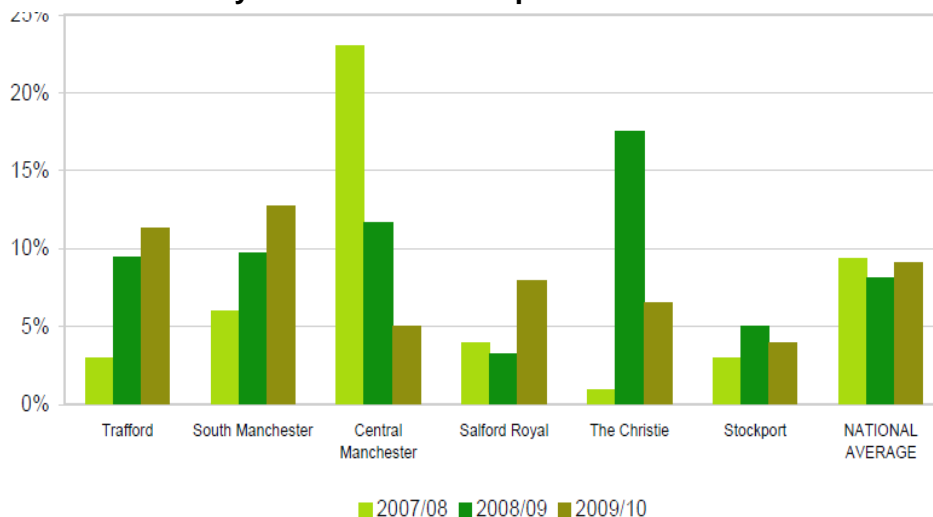
## Inpatient clinical coding audit

**42** This report presented the key findings from the targeted external clinical coding audit on inpatient activity at Trafford Healthcare NHS Trust carried out in December 2009 under the PbR data assurance framework.

43 The report concluded the Trust has made good progress in building the foundations to support good clinical coding and in carrying out the recommendations from 2008/09. However the Trust has yet to benefit from the full implementation of the actions taken to address the issues raised in last year's audit.

44 I carried out audits at all NHS acute trusts in each of the last three years. Figure 1 below shows the HRG error rates at the six trusts providing the most activity for your PCT.

**Figure 1: HRG procedure and diagnosis error rates for Trafford Primary Care Trust's main providers**



45 The Table shows that from 2007/08 to 2009/10 the error rates for one Trust had decreased (Central Manchester). But the error rate increased for the five others, including at the PCT's main provider, Trafford Healthcare Trust.

46 The report concluded that the PCT and Trust should support the continued improvement of coding by implementing the recommendations made, and in particular should:

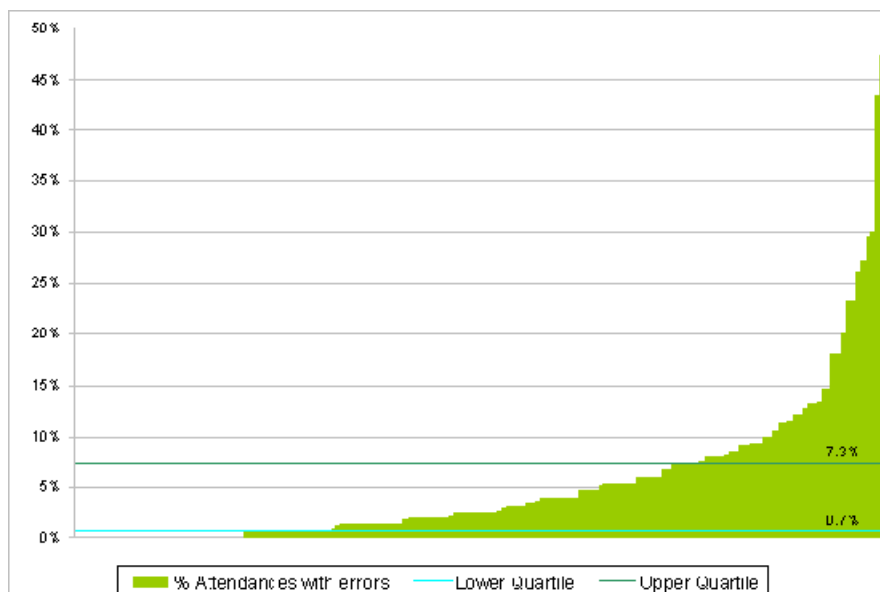
- Arrange a series of internal audits to provide assurance that the training of coders has been effective.
- Undertake a review of the policy and procedures manual by an experienced coder to ensure it does not contain any local policies which contravene national coding standards.

### Outpatient data reviews

47 Figure 2 shows the national findings for the percentage of outpatient attendances with one or more errors that would have caused the price charged by the trust to be wrong.

48 As shown in Figure 2, performance varied across the trusts with error rates ranging from 0 to 47 per cent. The national average rate being 5.2 per cent.

**Figure 2: National findings: average outpatient error rate 5.2 per cent**



**49** The findings from the audits at the six trusts providing most activity for Trafford PCT found that the error rates at one trust was higher than the national average of 5.2 per cent. The error rates at the other five trusts were lower than the national average.

**50** At all trusts, auditors have made recommendations to improve their arrangements or provide assurance to the commissioning PCT about data quality.

**51** The PCT should continue to work with the trusts and monitor actions taken to manage the risk of data errors arising.

## Payment by results in 2010/11

**52** In response to the feedback from the Audit Commission's consultation in 2009, the PbR data assurance framework will become more risk based and focus on areas that need to improve the most. For 2010/11, we will focus inpatient and outpatient audits on the worst performing trusts and independent providers who contract with the NHS. The programme will also be more commissioner-focussed. We will develop a framework for identifying financial risks of provider data quality and review local contract management arrangements. It will also move into reviewing the quality of costing information by reviewing reference cost submissions at all acute trusts.

## Other work

**53** During the year I have carried out other work outside the statutory audit of the accounts.

### International Financial Reporting Standards (IFRS)

**54** I reviewed your arrangements to restate your 1 April 2008 Balance Sheet onto an IFRS (International Financial Reporting Standards) basis. I concluded that you had in place good arrangements for the transition to IFRS.

**55** I revisited your IFRS arrangements as part of my 2009/10 audit when I audited your 2008/09 accounts re-stated on an IFRS basis. I certified to the Department of Health that the restated financial statements had been properly compiled on the basis stated. This was largely the result of very good work by Finance staff.

### National Fraud Initiative (NFI)

**56** 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.

**57** In 2009/10 the PCT received details of data matches which were investigated by the Local Counter Fraud Specialist. There were no significant cases arising.

**58** I will continue to monitor the results of any further data matches.

# Current and future challenges

## Equity and excellence: Liberating the NHS

**59** The Coalition government revealed in July its plans for reforming the NHS in England in the White Paper Equity and Excellence: Liberating the NHS. The Paper sets out radical changes that will see all PCTs abolished from April 2013. Under the Paper, SHAs will also disappear during 2012, and GP consortia will be set up to commission hospital care.

**60** The Board has recognised it needs to put in place robust transition arrangements over the coming months.

**61** The PCT will also need to have effective arrangements to plan, monitor and manage the financial position. It will need to stay within its revenue resource limit and deliver cost reducing efficiency saving targets of £13.6 million in the coming year. The SHA have recognised these targets are 'challenging' and latest financial estimates suggest there is potential slippage in meeting these.

**62** The latest projected year-end position reported at the end of September shows a best case forecast breakeven position and a worst case £2.25 million shortfall.

## Management costs

**63** The government white paper includes proposed efficiency savings made by reducing NHS administration costs by more than 45 per cent by 2013/14. NHS management costs are required to reduce by £500 million in 2010/11 and £850 million by 2013/14. This will reduce overall management costs by 46 per cent.

**64** The total North West PCT management cost in 2009/10 was £243 million. Appendix 3 shows the make up of these management costs at each North West PCT from information obtained in 2009/10 accounts. The make up of these management costs averages at £6,967 per full time equivalent (FTE) staff member and 1.9 per cent of total North West PCT revenue resource limit (RRL). Trafford's costs look relatively high. This may reflect that there is a fixed element of management costs that impact more at smaller PCTs.

**65** The Appendix shows considerable variation in these management cost ratios at local PCT level. There is no 'correct' level of management costs, but PCTs need to look closely at their own costs and know why they are at the level they are. The PCT also needs clear plans to reduce them. The government target of 45 per cent saving is very challenging for all PCTs. They will need to manage significant staff reductions at the same time as leading and supporting the transition to GP consortia at their local level.

## **Future developments**

**66** The development of the Integrated Care System (ICS) and Integrated Care Organisation (ICO) in Trafford is continuing to take shape. The Business Case for the ICO was reviewed by the Board and submitted to the Strategic Health Authority (SHA) for approval during September 2010. Next steps will be the detailed development of commissioning intentions across the whole of Trafford to deliver an integrated system of care.

**67** Critical to the future success of the ICS will be the achievement of measureable improvements in the quality and effectiveness of clinical services, tackling health inequalities and improving cost-effectiveness through integration. It will be essential that the Integrated Management Board manage and check closely the ongoing progress against these overarching aims.

## Closing remarks

**68** 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 2 November 2010 and will provide copies to all board members.

**69** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the PCT during the year.

Report	Date issued
PbR data assurance - inpatients (Trafford Healthcare Trust)	February 2010
Annual Governance Report	June 2010
Community Safety in Greater Manchester Follow-up - GM Districts	June 2010
Use of Resources	September 2010 (draft)
Audit progress reports, including follow up Manchester, Salford and Trafford LIFT Partnership	Throughout the year at each Audit Committee meeting.
Annual Audit Letter	October 2010

**70** The final audit fee for the work is detailed in Appendix 1.

**71** The PCT has taken a positive and constructive approach to our audit. I wish to thank the PCT staff for their support and cooperation during the audit.

Mick Waite  
District Auditor  
October 2010

## Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£78,410	£78,410	nil
Value for money	£65,900	£65,900	nil
Total audit fees	£144,310	£144,310	nil
Payment by results	£33,400	£33,400	nil
Total	£177,710	£177,710	nil

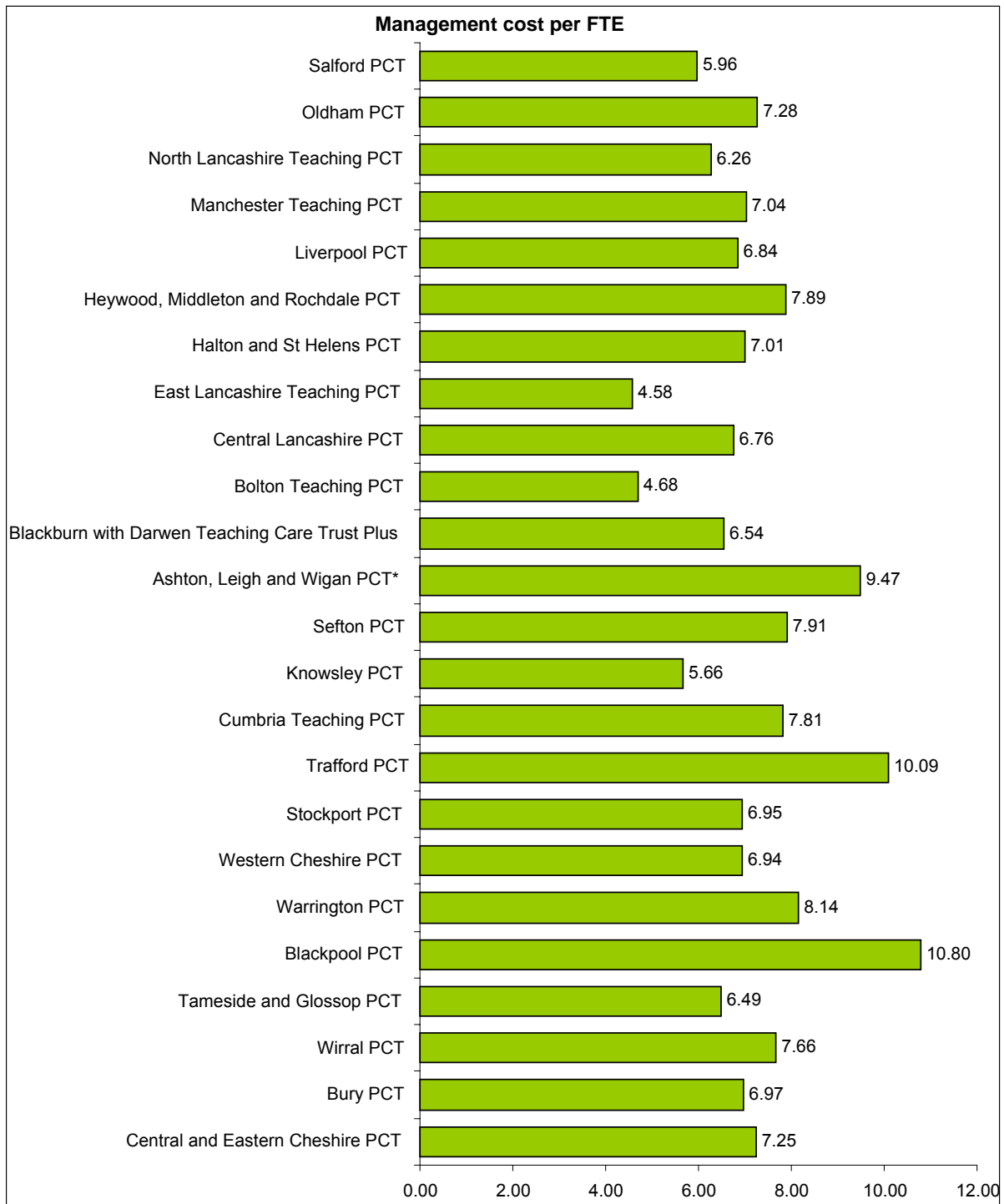
## Appendix 2 Use of resources and value for money conclusion

This table shows the conclusion for each key line of enquiry.

Themes (in bold) and key lines of enquiry	Use of resources score	Adequate arrangements for the value for money conclusion?
<b>Managing finances</b>		
Planning for financial health	3	Yes
Understanding costs and achieving efficiencies	2	Yes
Financial reporting	3	Yes
<b>Governing the business</b>		
Commissioning and procurement	-	Yes
Use of information	3	Yes
Good governance	2	Yes
Risk management and internal control	3	Yes
<b>Managing resources</b>		
Natural resources	1	No
Strategic asset management	-	N/a
Workforce planning	2	Yes

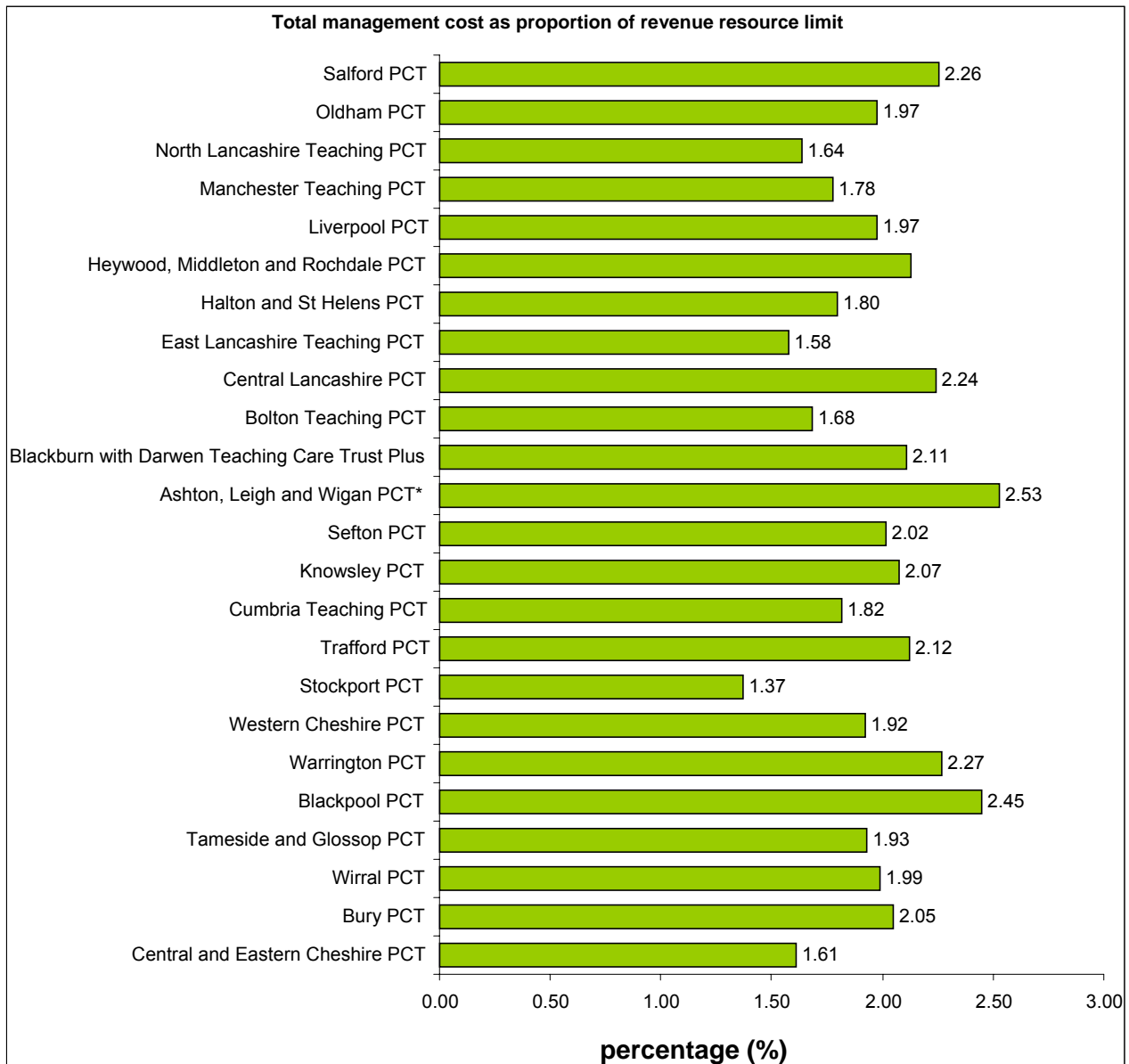
# Appendix 3a North West PCT management costs 2009/10

## Management cost per FTE



# Appendix 3b North West PCT management costs 2009/10

## Total management cost as a proportion of Revenue resource limit



## Appendix 4 Glossary

### **Statement on Internal Control**

Public bodies must provide assurance that they are properly managing and controlling their money, time and people. The Statement on Internal Control (SIC) is an important document for communicating these assurances to Parliament and citizens.

The SIC is the means by which the Chief Executive Officer declares his or her approach to and responsibility for, risk management, internal control and corporate governance. It is also used to highlight weaknesses which exist in the internal control system within the organisation. It forms part of the Annual Report and Accounts.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards, primary care trusts and strategic health authorities, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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