

# Annual Audit Letter

Sheffield 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

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### Key messages

- 1** I have issued an unqualified opinion on the PCT's accounts and concluded that you have proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- 2** In the past year, the PCT has achieved significant improvement in the areas assessed under the Auditors' Local Evaluation (ALE). The corporate focus on excellence and organisational coordination has been a significant driver in this improvement. It is important that the PCT maintains this impetus to improve.
- 3** The development and agreement of the Achieving Balanced Health is a major initiative setting out the PCT's agenda for the next few years. As it moves forward, the PCT must translate the strategic visions into action plans that deliver effective healthcare across the City, targeted appropriately to reduce health inequalities.
- 4** The Sheffield community faces significant challenges in reducing its levels of health inequality both within the borough and against national benchmarks. Clear strategies to reduce health inequalities have been followed over many years in Sheffield. These strategies are starting to bear fruit in the form of reductions in deaths from heart disease and cancer. But aspects of the structures and cultures within both the PCT and the Council reduce the speed at which plans to address continuing health inequalities are implemented.
- 5** Our Payment by Results (PbR) Data Assurance Framework audit at both the Sheffield Teaching Foundation NHS Trust and the Sheffield Children's Foundation NHS Trust revealed high levels of coding error. The financial consequences were minimal, but action by the Trusts is required to improve performance. The PCT needs to play its part in seeking that improvement.
- 6** The PCT has a clear vision for its provider services, is developing its arrangements for the delivery of directly provided services appropriately and is aware of the need to support continued development of the provider services as a stand alone entity. The effective implementation of information systems to support performance management and decision making will be crucial to future success.
- 7** Action plans are prepared for each of the reports that we produce. Consequently there are no specific recommendations for Board members within this Letter.

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# 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.
- 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](http://www.audit-commission.gov.uk), and I encourage the PCT to publish it 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](http://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 18 June 2008, before 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 Integrated Governance and Audit Committee on the issues arising from the 2007/08 audit. A detailed report was presented to the Committee on 18 June and only the key issues are summarised here.

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## Accounting issues

**16** The audit of accounts was straightforward, and we express our thanks to the staff who contributed to the quality of the working papers provided and the timely and helpful responses to queries raised during the audit.

**17** A clear opinion was given and we found only two issues of any real significance. There was a classification error in the analysis of expenditure, and a pre-payment had been made to the City Council, which we feel was unnecessary. We did note a couple of improvement opportunities and these have been discussed and agreed with the finance staff for next year.

# PCT's use of resources

- 18** 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.
- 19** 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

- 20** I concluded that the PCT had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.
- 21** In order to reach this judgement I have reviewed the PCT's corporate performance management and financial management arrangements against the 12 criteria specified by the Audit Commission. This work is integrated with my ALE work which is summarised below.

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

- 22** I assessed the PCT's arrangements in five themes. I scored each theme from 1 to 4 (with 1 being the lowest score and 4 being the highest).

**Table 1 ALE scores**

Theme	Assessment 2006-07	Assessment 2007-08
Financial reporting	3 out of 4	3 out of 4
Financial management	2 out of 4	3 out of 4
Financial standing	2 out of 4	3 out of 4
Internal control	2 out of 4	3 out of 4
Value for money	1 out of 4	2 out of 4
Overall assessment of the Audit Commission	1 out of 4	2 out of 4

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

## PCT's use of resources

- 23** It is pleasing to note the significant improvement in the PCT's financial and performance management arrangements which have underpinned the marked improvements in the ALE assessment.
- 24** We have been impressed by the degree and pace of improvement demonstrated, which has involved the whole of the PCT and its staff. We expect to see further progress during 2008-09, when the PCT will have had more opportunity to work through its strategic intentions to deliver balanced health for the residents of Sheffield.

### Financial reporting

- 25** Financial reporting is close to highest level and the quality of the Annual Report and Accounts and supporting working papers were good. We identified few errors or omissions within the financial statements. The Annual Report could be developed to:
- include information and analysis about its environmental footprint; and
  - offer a more forward looking tone, including trends and future projections.

### Financial standing

- 26** You kept within the cash limit for 2007/08 and met all statutory financial targets. In addition you have also repaid the financial support provided historically by the Strategic Health Authority to support predecessor PCTs. Bills are paid promptly and 98.8 per cent by value of NHS creditors were paid within the 30 day target.
- 27** Prudent effective and coordinated management has restored financial balance over the past two years, and projections for the next three years indicate this balance will be maintained.

### Financial Management

- 28** The PCT has sound planning and strategic links and has improved its reporting to the Board. Budget management arrangements are good and these were strengthened in the year. Areas where further improvement was planned but not implemented at the time included:
- Improving the linkages between financial plans and strategies and the achievement of corporate objectives.
  - Bringing forward commissioning processes so that all significant contracts are signed before the start of the financial year.
  - Confirming that financial management arrangements recognise and address the impact of future developments.
  - Implementing longer term solutions to reduce cost.
  - Integrating financial and non financial information for Board reporting.

### Internal control

- 29** You have sound risk management procedures although we advocate that key risks and actions to mitigate risk are seen as drivers in setting the Board agenda, and that relevant training is delivered to equip staff to manage risk appropriately. We have also identified a number of improvement opportunities for Internal Audit to implement.

**30** There is an effective Integrated Governance and Audit Committee and there is substantial compliance with the requirements of the Audit Committee handbook.

**VFM \***

- 31** We have recognised the significant progress you have made in developing your Achieving Balanced Health strategy. Implementation of the necessary actions arising from this strategy inevitably takes time. At the time of our assessment we concluded that whilst you had started to make progress, having undertaken some reviews in key areas this was still work in progress. Similarly, whilst significant progress was recognised around the development of performance management overall; in relation to Practice Based Commissioning (PBC) less progress had been made. Given the critical importance of PBC to the achievement of your overall strategy we again assessed this as work in progress. Our overall assessment was therefore that your arrangements had improved to level 2 (adequate) but had not yet reached level 3 (performing well).
- 32** I will issue a detailed report supporting my assessment and highlighting areas for improvement to the PCT in October 2008 when the national comparisons are finalised. However, summarised information has been issued to the Director of Finance to enable you to strengthen controls and procedures for the current year.

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**Specific risk-based work**

**33** I carried out specific pieces of work as follows.

- Long Term Conditions;
- Provider Services management;
- Information Management and Governance; and
- Health Inequalities.

**34** Each of these has been or will be separately reported to the PCT. The key findings from each piece of work are summarised below.

**Long Term Conditions**

- 35** A long term condition (LTC) is one that today's medical care cannot cure and requires control through medication and/or other therapies. Patients' with a LTC account for some 80 per cent of GP consultations and a significant proportion of emergency admissions to hospital. The impact on the NHS from LTCs is expected to increase over time as life expectancy increases. Effective care strategies therefore should be a key aspect in the PCT's drive to manage demand for secondary care services.
- 36** The PCT's over-arching strategy - Achieving Balanced Health, includes a good overall vision for LTCs and the associated building blocks and LTC needs are reflected in other more detailed strategies including Unscheduled Care, Intermediate Care and Provider Services.

## PCT's use of resources

- 37** Information gained through health equity audits and other public health initiatives, has been used to direct investment in some areas and could be used further. However further work is required to identify information requirements so that the PCT can understand the impact of measures to care for patients with LTCs and support frontline staff. Early indications suggest that clinicians are actively engaged with the PCT and that GPs are getting more involved in addressing care pathways for LTC, which bodes well for the future.
- 38** There has been some progress in developing care pathways eg diabetes, which will impact positively on LTC. However, from work conducted during the audit, we did not see evidence of more comprehensive action plans to support the implementation of strategies to achieve the intended outcomes. Whilst no doubt this is taking place, we recommend it be given high priority to maintain impetus for improvement. The PCT should learn from the structured approach to performance management of admissions avoidance as part of the turnaround process and apply similar methodologies in managing the implementation of other strategies.
- 39** Our detailed report was issued in July and an action plan agreed to address our recommendations.

## Provider Services

- 40** The launch of 'World Class Commissioning' and other recent legislative and policy changes have focused PCT attention on its core commissioning responsibilities and given them the duty to develop and manage local health markets by stimulating provider interest. This requires that the vital services delivered directly by the PCT need to have strong leadership, governance and management arrangements in place to support effective healthcare in the community.
- 41** We set out to assess the PCT's progress to date in internally separating its commissioning and community services provider functions and developing its long term plans for community services provision.
- 42** We concluded that the PCT has established a clear vision for the development of its community services and is taking a pragmatic and appropriate approach to reconfiguring its provider function. It has recognised the need to consider alternative governance structures that are consistent with, and help to deliver its key strategic objectives and is currently commissioning a strategic assessment of potential models and options. In moving forward the PCT will need to identify and demonstrate the use of robust evaluation criteria and reliable information to inform its decision making.
- 43** The PCT has recognised the need to deliver increased plurality of provision and is taking effective and appropriate action to develop its procurement practice. A procurement strategy with detailed implementation plans has been agreed and work is underway to develop a greater understanding of existing and potential service providers and the local market. The initial impact has been positive in attracting provider interest though formal success criteria have still to be established.

- 44 The PCT has made good progress to date in establishing a separation between provider and commissioner responsibilities. In particular:
- Promptly setting up a governance and management framework for arrangements with its provider function and also reviewing and revising elements of the governance structure in line with developments in the operating environment.
  - Developing and strengthening the service level agreement (SLA) with the provider arm and introducing contract review procedures which provide short term support but demonstrate movement towards the equal treatment of all providers.
  - Taking appropriate action to develop necessary business skills and capacity within Provider Services albeit not as part of a systematic process.
- 45 In common with many other PCTs the availability and quality of information for managing performance and making decisions within community services is limited. As a result there is little systematic use of information, including benchmarking to drive service improvement. The implementation of the TPP Community system within community services needs to be effectively managed if the anticipated benefits including significantly improved management information are to be realised.
- 46 We are currently in the process of agreeing our report after which we will finalise the action plan and issue the report.

### Information management and Governance

- 47 Better information management is central to the delivery of service improvements. Our review therefore focused on evaluating how well the PCT is managing and using information.
- 48 We concluded that the PCT has a sound IM&T strategy although progress in implementing NPfIT has been limited.
- 49 The PCT has sound arrangement in place for performance management information particularly for PCT commissioners and for public health information and analysis. The PCT makes demographic, health needs assessments, financial and activity information available to practice based commissioners and is working with them to enable them to use it more effectively for planning purposes.
- 50 The quality of information available to provider services varies and initiatives are under way to improve the approach to the provision of robust information including the implementation of the TPP Community system. However, the information systems and support provided to GPs is good.
- 51 The PCT has sound information governance and security arrangements although we identified a need to review business continuity arrangements and the arrangements for securing data held on laptops.
- 52 We are currently in the process of agreeing our report after which we will finalise the action plan and issue the report.

## PCT's use of resources

### Health Inequalities

- 53** Health, well-being and reducing inequalities are key nation priority areas for the health service and local government. Promoting healthier communities and reducing the gap between the least and most healthy groups of the population can have a significant effect on overall well-being and prosperity.
- 54** The objective of our work was to review how well the PCT and Council were developing strategies and detailed plans with their partners to tackle health inequalities and whether this is having any effect on the health of the local population.
- 55** The Sheffield community faces significant challenges in reducing its levels of health inequality both within the borough and against national benchmarks. Clear strategies to reduce health inequalities have been followed over many years in Sheffield. These strategies are starting to bear fruit in the form of reductions in deaths from heart disease and cancer. The PCT and Council should look to further develop joint working where possible to maximise the impact of initiatives to reduce health inequalities.
- 56** To build on the progress already made we have recommended:
- That the Council and PCT should expand their intelligence and targeting to communities of interest as well as geographical areas.
  - The Council and PCT should seek to enhance their collaborative work through further integration and joint working at all levels from senior councillors and NEDs to front line service provision.
  - The PCT should review the level of involvement of public health staff in healthcare commissioning with a view to increasing the impact of contracts on health inequalities.
- 57** We are currently in the process of agreeing our report after which we will finalise the action plan and issue the report.

### Payment by Results Assurance Framework

- 58** 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.
- 59** Under the PbR system, hospitals have to record all of the treatment provided to each individual payment and code these to Healthcare Resource Groups (HRGs). Each HRG has an associated tariff (ie price), which is used as the basis on which the PCT pays the hospitals for the treatments provided.
- 60** Our reviews examined the accuracy of clinical coding and the adequacy of controls. Whilst the reports identified areas which may warrant further investigation, the basis on which samples were selected meant that the results cannot be extrapolated to identify a statistically robust overall error rate for the Trusts or to calculate any overall amounts due because of overcharging or undercharging work.

61 The PCT is the host and significant user of services from two local Foundation Trusts - Sheffield Children's NHS Foundation Trust and Sheffield Teaching Hospitals NHS Foundation Trust. A summary of results is show in the table below.

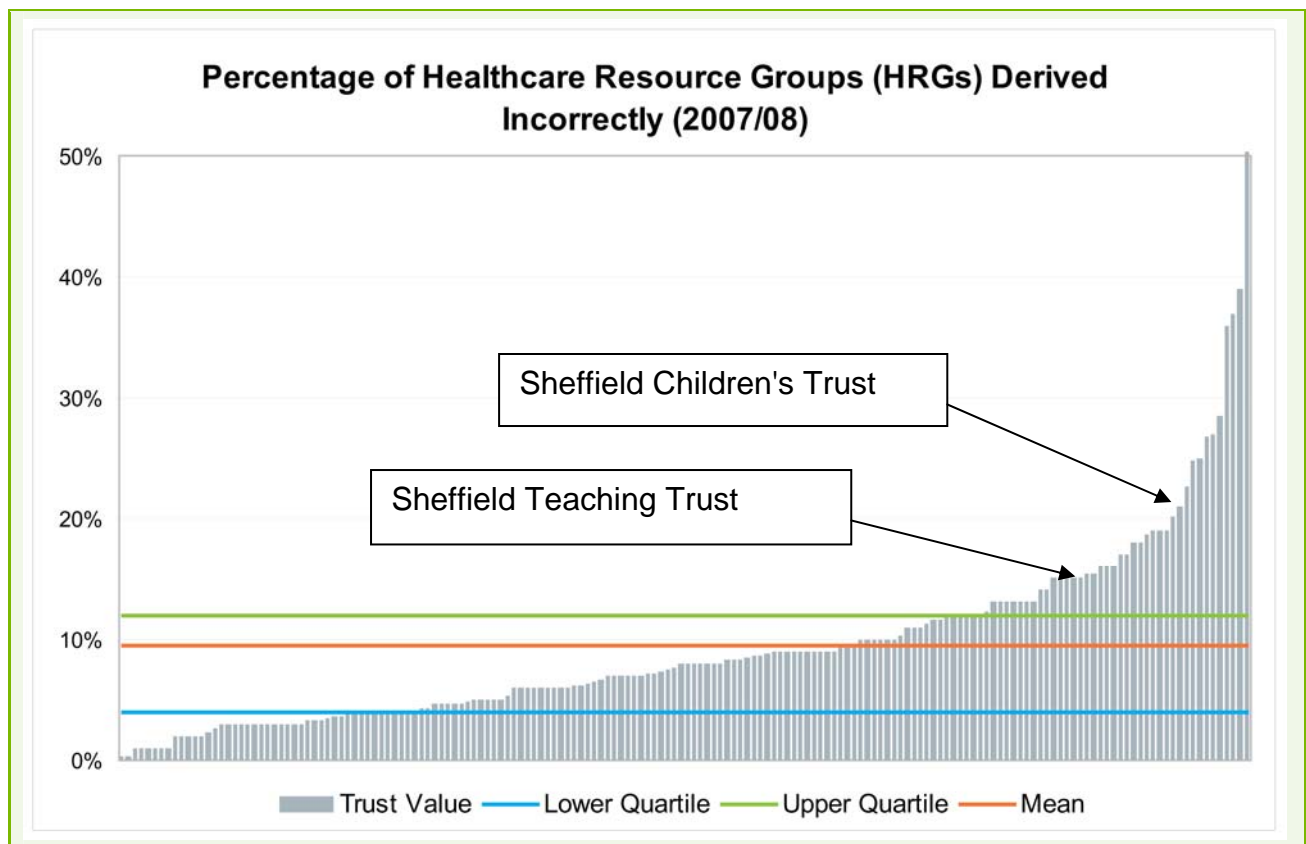
**Table 2 Main findings from areas audited**

Overall results for Trusts	% of episodes changing HRG	Net % difference between pre and post audit pricing	Net Financial Value of HRG Changes	Key recommendations
Sheffield Children's NHS Foundation Trust	18	1.3%	£4,725	Agree a mechanism with the Trust to follow up the actions and issues identified in the report and the coding auditor's report.
Sheffield Teaching Hospitals NHS Foundation Trust	14	0.1%	(£613)	Agree a mechanism with the Trust to follow up the actions and issues identified in the report and the coding auditor's report. The PCT and Trust should review the treatment of Cardiology scans (Myoview) and General Surgery PH Manomtetery as day cases for coding purposes once further information is received from CfH (as requested by the Audit Commission).

62 An analysis of the national results of the 2007/08 audits (see figure 1 overleaf) 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. The error rate for both Sheffield Trusts' reviewed places them in the upper quartile for coding errors that change the HRG. These error rates are too high, and the PCT should actively press the Trusts to demonstrate effective action to reduce errors to a more reasonable level.

63 The financial consequences of the coding errors however were minimal (see table 2 above).

Figure 1 National summary



### Follow up of previous PbR recommendations

64 The Trusts were part of the pilot work undertaken in 2006/07 and there were a number of recommendations made in the coding audit report and some progress was noted during this years audits. However, it is disappointing to note that coding accuracy was worse in the areas audited this year than it had been in the pilot year.

### PCT actions

65 The PCT should, as host and significant user of the Trusts, discuss the proposed recommendations with the relevant Trusts and discuss 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 (UoR) for future years.

### National Fraud Initiative

- 66** The National Fraud Initiative is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud. The referrals from the current exercise were released to participating bodies in January 2008. Having reviewed the handful of potential matches in Sheffield, we concluded that the data matching exercise highlighted no evidence of fraud or abuse at the PCT.

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# Closing remarks

- 67** I have discussed and agreed this letter with the Chief Executive. I will present this letter at the Integrated Governance and Audit Committee on 15 October 2008 and will provide copies to all Board members.
- 68** 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 3     Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit plan	March 2007
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for money conclusion	June 2008
PbR Data Assurance Framework Clinical Coding Audits	July 2008
Demand Management and Long Term Conditions	July 2008
Annual audit letter	September 2008
Auditor's local evaluation	October 2008
Information management and governance	October 2008
Provider Services	October 2008
Health inequalities	October 2008

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- 69** 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.

Sue Sunderland  
District Auditor  
October 2008

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# 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.

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, covering the £180 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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