

Annual Audit Letter

Norfolk Primary Care Trust

Audit 2008/09

October 2009



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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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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I issued my audit report including an unqualified opinion on the financial statements on 11 June 2009, in line with the Department of Health deadline.
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Financial Statements

- 2 Before giving my opinion I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2008/09 audit via my Annual Governance Report. I issued this report on 4 June 2009, and subsequently provided an update to the Audit Committee on 3 July. The issues listed below were all included in this report.
 - 3 A number of non-material misstatements were identified during the course of my audit. Management adjusted the financial statements in relation to most of the misstatements identified.
 - 4 Most of the adjusted errors identified during the course of our work were misclassifications and did not impact on the operating cost statement (OCS) or balance sheet 'bottom line'. Whilst earlier closedown will have put increased pressure on finance staff, the level of classification errors detected was relatively high and may indicate additional training needs.
 - 5 A limited number of misstatements identified during the course of my audit were not adjusted by management. The unadjusted errors were considered by the Audit Committee which concurred with management's proposals not to amend the accounts. The reasons for this were set out in the representation letter.
 - 6 I also identified a number of weaknesses in internal control which, although not resulting in a material error in your financial statements, represent areas for improvement. I reported these to the Audit Committee, along with a number of recommendations.
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IFRS restated accounts

- 7 The PCT has taken a pro-active approach to the earlier accounts deadlines and implementation of International Financial Reporting Standards (IFRS). The 2009/10 accounts will be prepared under this new framework.
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- 8 We were required to provide an opinion on the PCT's 2008/09 accounts as restated under IFRS. The audit concentrated on reviewing significant changes to the 2008/09 figures (previously audited under UK accounting principles) as a result of the application of IFRS. This included Local Investment Finance Trust (LIFT) arrangements, finance leases and legal charges.
- 9 I issued a qualified 'except for' opinion on the PCT's IFRS restated 2008/09 financial statements on 16 September 2009, in advance of the revised 17 September deadline.
- 10 Guidance on legal charges had been issued relatively late in the process and the PCT was unable to complete its review of these arrangements by the deadline. It was not, therefore, able to provide evidence that the appropriate accounting entries have been made in respect of legal charges. The PCT's work on this is continuing so that any necessary revisions to the restated figures can be agreed in advance of the 2009/10 audit.

Use of resources

- 11 I assessed the PCT's arrangements to secure economy, efficiency and effectiveness in its use of resources against criteria specified by the Audit Commission.
- 12 I identified weaknesses in arrangements in respect of two of the ten use of resources criteria. I therefore issued a qualified value for money conclusion, reporting that the PCT had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in the areas of commissioning and workforce management. I assessed the PCT's arrangements as adequate in seven of the use of resources criteria (reflected in level 2 scores), with asset management assessed as performing well (level 3).
- 13 The criteria where weaknesses were identified were as follows.
 - Quality of commissioning and procurement. This was judged as inadequate based on the Department of Health's (DoH) World Class Commissioning assessment. I am aware that the PCT has developed an action plan which is being monitored at monthly Performance Assurance Review meetings.
 - Workforce planning. The PCT does not yet know what its medium to longer term requirements for staffing and skills are. Some good work has been undertaken with other health and social care providers in Norfolk to undertake workforce planning, based on shared data from all organisations. Programme boards undertaking service planning and redesign will be integrating workforce planning into their work, but work is at too early a stage for staffing requirements to have been quantified.
- 14 The PCT has made good progress in implementing the recommendations of the 2008 review of Provider Arm arrangements. Work is still in progress in some areas, but the PCT has timescales and processes in place to monitor progress.

Key messages

Economic downturn

- 15** The economic downturn and banking crisis are having a significant impact on public finances and the bodies that manage them. There are wide ranging and fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 16** This has an impact on the audit and, as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the PCT's response to these.
- 17** The PCT has already engaged a firm of valuers to consider the impact of the current property market on the value of its land and building assets and as a consequence recognised a significant downwards revaluation in the 2008/09 financial statements.
- 18** Recently the PCT has revised its medium term financial plan supporting the 2009-2014 Strategic Plan. The plan recognises that the current economic situation will have a significant impact on public sector funding in the medium term, and that its plans may have to be delivered in the face of decreased public funding. 2009/10 will be a period of important planning for the PCT to enable it to further formulate the necessary efficiencies, reconfiguration of care and reinvestment requirements needed to enable the strategic plan to be delivered, and this will need to be carefully monitored.
- 19** We recognise that the PCT has made significant progress in turning around an inherited deficit position on formation from the predecessor PCTs, achieving breakeven and debt repayment to the Strategic Health Authority (SHA) in 2007/08, and enabling a deposit to be lodged with the SHA in 2008/09. However the financial position for 2009/10 and future years is looking less certain, particularly given the challenging economic conditions referred to above. The PCT's net financial overspend at the end of August 2009 was £2.8 million which, without further action, could increase to £17 million at year-end. We understand that a recovery process has been initiated.
- 20** The PCT needs to keep this position under close review to ensure the financial position is closely monitored and controlled in order meet its financial targets.

Recommendation

R1 Take immediate corporate action to secure savings and/or cut spending.
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Audit fees

- 21** Table 1 sets out our proposed fees and the actual fees charged.
- 22** The reduction in the proposed fee relates to proposed work on Commissioning and Practice Based Commissioning which was no longer considered appropriate to given the Department of Health (DoH) work on World Class Commissioning, and the follow up by the previous auditors of their Practice Based Commissioning report. This fee reduction has been refunded to the PCT.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements	£184,424	£184,424	£0
Additional fee for assessing IFRS preparedness	£10,000	£10,000	£0
Use of resources (Value for money conclusion and use of resources work)	£64,218	£98,041	£(33,823)
Total audit fees	£258,642	£292,465	£(33,823)
Payment by results	£33,000	£33,000	£0
Total	£291,642	£325,465	£(33,823)

Actions

- 23** Recommendations are shown within the body of this report and have been agreed with the audited body. These are summarised in Appendix 3.

Independence

- 24** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and statement on internal control

The PCTs financial statements and statement on internal control are an important means by which the PCT accounts for its stewardship of public funds.

Significant issues arising from the audit

- 25** I issued an unqualified opinion on the PCT's 2008/09 accounts on 11 June 2009, 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.
- 26** Before giving my opinion I reported to those charged with governance on the issues arising from the 2008/09 audit. The issues listed below were all included in my Annual Governance Report.
- 27** A number of non-material misstatements were identified during the course of my audit. Management adjusted the financial statements in relation to most of the misstatements identified.
- 28** Most of the adjusted errors detected during the course of our work were in respect of classification errors and did not impact on the operating cost statement (OCS) or balance sheet 'bottom line'. Whilst earlier closedown will have put increased pressure on finance staff, the level of classification errors detected was relatively high and may indicate additional training needs.
- 29** A limited number of misstatements identified during the course of my audit were not adjusted by management. The Audit Committee concurred with the management's intentions not to amend the accounts and explained the reasons for this in the representation letter. The impact of these unadjusted errors would have been a £213,000 reduction in the PCT's £1,079,000 surplus.
- 30** One of the issues we identified as a result of our audit was in relation to the accounting arrangements for the Norfolk Learning Difficulties Pooled Fund. We did not consider that the PCT had appropriately accounted for the Fund as a joint arrangement that is not an entity (a JANE) under FRS9. Essentially, under JANE accounting the PCT should account directly for its share of the assets, liabilities and cash flows held within the JANE. The impact on the balance sheet would be that a £3.1 million cash balance would replace the debtor currently included in the accounts. Officers agreed to review the accounting treatment and ensure that it is correct for the 2009/10 financial statements. We considered that this was acceptable given the overall materiality to the accounts.

Material weaknesses in internal control

- 31** I did not identify any weaknesses in the design or operation of internal control that might result in a material error in the financial statements of which the PCT was not aware. I have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made.
- 32** I did however identify and report on a number of matters which came to my attention because of the audit procedures we performed. I have made recommendations to the PCT in respect of these issues in my Annual Governance Report, as summarised in Appendix 5 of that report. The key issues identified are summarised below:

Fixed assets

- 33** Our audit work identified a number of issues related to the fixed asset information included in the accounts and supporting information. The most significant of these were as follows.
- Enhancement expenditure on assets brought into use should be considered for impairment and, where impairment has occurred, these should be charged through the operating cost statement (OCS). No such impairments have been charged in the 2008/09 accounts. Officers were of the view that this issue was considered by the valuer in carrying out his work. However this could not be clearly established from the instructions to the valuer and therefore we needed to undertake additional work to ensure that the accounts were appropriately stated.
 - There had been some progress in terms of fixed asset accounting and ensuring that the year-end accounts disclosures are more easily agreed back to the supporting spreadsheet asset registers. However, current asset registers are separated by type of asset and are inconsistent in terms of the level of information they contain. A consolidated register with a consistent approach to including the information required for the accounts, including the necessary entries for the revaluation reserve, should be maintained for future years.
 - The information supporting lease disclosures in the accounts should be improved and reconciled to the latest information that has been established in preparation for IFRS implementation. Although not material to our opinion, our review indicated that three leases have been inappropriately treated as operating leases under UK GAAP from their inception, indicating that procedures to assess leases have not been sufficiently robust and should be improved.

Creditors and accruals

- 34** There is no overall reconciliation between the information from Konducta (the invoice log system) and EROS (the electronic ordering system) for invoices which are awaiting approval/orders where the goods have been received but not yet invoiced, and what is included in creditors and accruals at the year-end. Although there are some monthly controls in place there is no clear audit trail of this process and our audit procedures identified a trivial accrual which had been omitted, thus indicating that the processes in place should be strengthened.

Financial statements and statement on internal control

35 As part of our review of creditors we also considered the creditor position with Norfolk County Council. The previous auditors had recommended that the position with this significant supplier be reconciled at the year-end but this had not been completed. We therefore needed to undertake further work to be satisfied that the creditor position was not significantly misstated. We recommended that, in future, regular reconciliations should be undertaken on key supplier accounts during the year and as part of the accounts closedown process.

Accounting Practice and financial reporting

36 I considered the qualitative aspects of your financial reporting. I reported the following issues to the audit committee.

- Related party transactions disclosures were not complete. This was corrected in a subsequent version of the accounts.
- The £9,038k temporary price impairment was shown as a downwards revaluation in the fixed asset and reserves notes rather than being shown in the impairment lines.
- Six income streams totalling approximately £3.5 million were not allocated appropriately between the required classifications of appropriated or non-appropriated in aid in note 3 to the accounts.
- An error was detected in the spreadsheet supporting the provisions note which meant that the movements in the note were incorrect. There was no impact on the carried forward balance.

37 Officers corrected these issues in a subsequent version of the accounts.

IFRS restated 2008/09 accounts

38 On 11 June 2009 the Department of Health issued 'Guidance for the restatement of 2008/09 results to an IFRS basis'. This required Primary Care Trusts and Strategic Health Authorities to submit to the Department of Health restated comparative financial information based on international accounting principles.

39 Auditors were required to assess the risk of the restatement not being properly compiled and adjustments being inappropriate for the purposes of presenting the financial information (as restated) on a basis consistent in all material respects with the accounting policies contained in the NHS Manual for Accounts 2009/10.

40 We were required to provide an opinion on the PCT's 2008/09 accounts as restated under International Financial Reporting Standards (IFRS). The audit concentrated on reviewing significant changes to the 2008/09 figures (previously audited under UK accounting principles) as a result of the application of IFRS. Key areas were:

- Local Investment Finance Trust (LIFT) arrangements;
- property, plant and equipment;
- finance leases;

- embedded leases and legal charges over property;
 - trade receivables and trade payables; and
 - the impact of movements on the revaluation reserve and general fund.
- 41** I issued a qualified 'except for' opinion on the PCT's IFRS restated 2008/09 financial statements on 16 September 2009, in advance of the revised 17 September deadline.
- 42** Guidance on legal charges had been issued relatively late in the process and the PCT was unable to complete its review of these arrangements by the deadline. It was not, therefore, able to provide evidence that the appropriate accounting entries have been made in respect of legal charges. The PCT's work on this is continuing so that any necessary revisions to the restated figures can be agreed in advance of the 2009/10 audit, which will be prepared under the IFRS framework.
- 43** A limited number of adjustments were made to the restated accounts as a result of our work. The most significant of these was the transfer of £6.7 million assets classified as 'held for sale' to 'property, plant and equipment' as we determined that the stringent criteria for classification as 'held for sale' were not met.

Recommendation

- R2** Conclude the review of legal charges and make any necessary revisions to the restated accounts under IFRS.

Use of resources

I considered how well NHS Norfolk is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the PCT put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 44** In forming my scored use of resources judgements, I have used the methodology set out in the use of resources framework. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. I have also taken into account, where appropriate, findings from any other relevant audit work.
- 45** The PCT's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are outlined at Appendix 1. My separate Use of Resources report is about to be issued to the PCT and will also highlight areas for improvement. This will enable officers to supplement the action plan that they have already put in place to secure improvements in the PCT's use of resources.

Table 2 Use of resources theme scores

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

Recommendation

R3 Address the areas for improvement identified in my Use of Resources report.

VFM Conclusion

- 46** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in my Use of Resources report and are summarised at Appendix 1.
- 47** I issued a qualified conclusion stating that the PCT had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources except that it did not put in place adequate arrangements for the following.
- Commissioning and procuring quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money. This was based on the results of the Department of Health's World Class Commissioning (WCC) assessment.
 - Planning, organising and developing its workforce effectively to support the achievement of its strategic priorities.
- 48** I am aware that the PCT has developed an action plan in response to the WCC findings which is being monitored at monthly Performance Assurance Review meetings.
- 49** Workforce planning arrangements are also developing at the PCT and some good work has been undertaken with other health and social care providers in Norfolk to undertake workforce planning, based on shared data from all organisations. However, the arrangements were not sufficiently developed to be considered effective at 31 March 2009.

Review of Provider Services - follow up review

- 50** As part of my programme of work at the PCT I followed up progress on implementing the recommendations made by the PCT's previous external auditors (PriceWaterhouseCoopers LLP) from their 2008 review of the PCT's provider services, Norfolk Community Health and Care (NCH&C).
- 51** I concluded that the PCT has made good progress and had actioned most recommendations from the original report. Only one recommendation remained outstanding; to clarify the value of savings in the narrative of finance reports.
- 52** The timing of the fieldwork for our review meant that key documents such as the revised medium term financial strategy and board assurance framework for NCH&C were not reviewed by us. We are aware that there has been progress on both these areas since our review.

Use of resources

- 53** Work was still in progress in some areas, for example workforce planning, patient level costings/service line reporting, risk management training and evaluation of the efficiencies arising from the implementation of the community information system. The PCT has timescales and processes in place to monitor the progress of these and other separation requirements, with a Provider Action Plan and 'Moving Forward' programme used to monitor progress. NCH&C is required to achieve 'sufficient business readiness' for separation by October 2009.
- 54** A detailed report setting out the findings from our review and highlighting areas for further action was issued to the PCT in June 2009. There were no formal recommendations arising from the report, but we suggested the following.
- The PCT takes action to address the recommendation outstanding from the first review:
 - completion of the detailed medium term financial plan; and
 - clarify the narrative commentary in the monthly Finance Reports to the shadow Board on savings schemes as to the overall values of savings achieved/not achieved in the year to date (original recommendation 30).
 - Given recent changes to the Memorandum of Understanding between NCH&C and NHS Norfolk (the corporate PCT) accountability for procurement and the asset register has changed. NCHC should review its earlier response to the two recommendations affected:
 - a single overarching procurement policy should be developed and published internally. This should specify the procedures to be followed and include clear guidelines for obtaining demonstrable value for money (original recommendation 23); and
 - the fixed asset register should be updated throughout the year, on at least a quarterly basis, for additions, disposals, indexation and depreciation (original recommendation 34).

Recommendation

R4 Ensure that the progress with the NCH&C action plan and 'Moving Forward' programme covers the issues suggested in our Follow Up Review of the Provider Services report.

Annual summary of recommendations

55 I set out at Appendix 2 my annual summary of recommendations made to the PCT.

Payment by results (PbR)

Under the PbR data quality assurance framework the Audit Commission has carried out inpatient clinical coding audits, outpatient data quality audits and the continuation of national benchmarking information and analysis at NHS Trusts and NHS Foundation Trusts.

PCTs will have received regular reports on the results of this work at their main provider trusts and national updates directly from the Commission.

Key Findings: Admitted patients review at Queen Elizabeth Hospital King's Lynn NHS Trust

- 56** This review summarised the findings from the independent, targeted external clinical coding audit on admitted patient care activity at Queen Elizabeth Hospital King's Lynn NHS Trust (the Trust) carried out in June 2008 and also followed up recommendations from the audit completed in 2007/08.
- 57** The Trust compares favourably with the national findings from the assurance framework in 2007/08, which identified that the average Healthcare Resource Group (HRG) change rate was 9.4 per cent. Compared with the national results from last year's audits this error rate places the Trust better than the average but not in the 25 per cent of best performing trusts. The key area where the Trust could look to improve its arrangements was in the General Medicine specialty.
- 58** Overall, the coding accuracy in 2008/09 was found to have decreased slightly since the previous audit in July 2007. 17 episodes with errors which would have changed the HRG represented 6 per cent of the total cases tested. This is higher than in the 2007/08 audit where the percentage of errors which would have changed HRGs was 4 per cent.
- 59** There was a level of inaccuracy which has affected the income due to the Trust from its commissioners. The majority of errors identified were found to be coder errors: 101 (8 per cent) of the 1,288 diagnosis and procedures audited. Of these coder errors, 52 (51 per cent) were due to the omission of diagnosis and procedures.
- 60** There were a number of areas where the Trust had good arrangements in place to support accurate coding. These included:
- a high level support for and interest in the department from the Trust Director of Operations;
 - some action had been taken following the recommendations of the last audit report;
 - the intended source document for all episodes of care is the full case note; and
 - the Clinical Coding Manager is a NHS Connecting For Health (CfH) Approved Trainer.

Payment by results (PbR)

61 The key findings of the audit were:

- the standard of the case notes is very poor; the information is rarely chronologically filed and without dividers - this makes the case notes very difficult to navigate;
- clinical information concerning diagnoses and procedures is easy to miss;
- there was inconsistency in the recording of some codes particularly co-morbidities. This was probably caused by lack of coding experience in the team and the lack of current coding capacity; and
- several of the coder's require national standard refresher training.

62 The audit also followed up the recommendations made as part of the 2007/08 visit to the Trust. Six recommendations were found to be incomplete/still under review.

Recommendation

R5 Continue to monitor progress made by Queen Elizabeth Hospital King's Lynn NHS Trust in implementing recommendations made as a result of payment by results work.

Norfolk and Norwich University Hospitals NHS Foundation Trust

- 63** This review summarised the findings from the independent, targeted external clinical coding audit on admitted patient care activity at Norfolk and Norwich University Hospitals NHS Foundation Trust (the Trust) carried out in June 2008 and also followed up recommendations from the audit completed in 2007/08.
- 64** The Trust compares favourably with outcomes from the assurance framework in 2007/08, which identified an average HRG change rate of 9.4 per cent. Compared with the national results from last year's audits this error rate places the Trust below average but not in the 25 per cent of best performing trusts.
- 65** Overall, the coding accuracy in 2008/09 was found to be more accurate than the sample from the audit in July 2007. The 16 episodes with errors which would have changed the HRG represented 5.3 per cent of the total cases tested. This is better than the findings from the audit in 2007/08, when the percentage of HRGs subject to change was 9 per cent.
- 66** The majority of errors identified were found to be coder errors, 144 (11.7 per cent) of the 1,231 diagnosis and procedures audited. Of these coder errors, 78 (6.3 per cent) were due to omission of diagnosis and procedures.

67 There are a number of areas where the Trust has good arrangements in place to support accurate coding. These include:

- a good programme of audit and training conducted by the manager and her deputy;
- a follow-up system whereby inaccurate or incomplete discharge information (the discharge letter) is chased up with the all clinicians; and
- a well documented policy and procedure document in place, and, although not impacting on this particular audit, the Deputy Coding Manager is preparing the department for Version 4 HRGs for Chemotherapy coding.

68 The audit also identified a number of weaknesses in procedures which may have contributed to the coding errors. The key areas where the Trust could improve its arrangements are:

- Urology, which saw the lowest figure in diagnostic coding accuracy, with a split of 12 per cent non-coder error and 10 per cent coder error;
- Trauma and Orthopaedics, where the typed operation record often held up access to the notes, and where relevant co-morbidities such as hypertension and prosthetic hip/knee joint already in situ were missed; and
- Obstetrics and Neonates, where there was coder error rate of 14.3 per cent in primary diagnosis.

69 The audit also followed up the recommendations made as part of the 2007/08 visit to the Trust. Two recommendations were found to be incomplete/still under review. A further three new recommendations were made in 2008/09.

Recommendation	
R6	Continue to monitor progress made by Norfolk and Norwich University Hospitals NHS Foundation Trust in implementing recommendations made as a result of payment by results work.

Closing remarks

- 70** I have discussed and agreed this letter with the Chief Executive, the Director of Finance and Audit Committee Chair. I will present this letter at the Board Meeting on 27 October 2009 and will provide copies to all board members.
- 71** 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. These are shown at Table 3.

Table 3

Report	Date issued
Payment by Results Data Assurance Framework - Admitted Patient Care Benchmarking Report - Norfolk and Norwich University Hospitals NHS Foundation Trust	December 2009
Provider Services Follow-up Report	June 2009
Audit Opinion and Value for Money Conclusion	June 2009
Payment by Results Data Assurance Framework - Admitted Patient Care Benchmarking Report - Queen Elizabeth Hospital King's Lynn NHS Trust	June 2009
Annual Governance Report (final)	July 2009
Final Accounts Report	September 2009
Use of Resources	October 2009 (anticipated)

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- 72** NHS Norfolk has taken a positive and constructive approach to our audit. I wish to thank the PCT staff for their support and co-operation during the audit.

Debbie Hanson
District Auditor
October 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Managing finances

Theme score - 2
Key findings and conclusions
<p>The PCT manages its finances acceptably. Financial planning is integrated with strategic and service planning, and has seen significant development in 2008/09. The PCT was taking action at the time of our review to refresh its corporate strategy and Medium Term Financial Strategy (MTFS) in the light of the comments from the Department of Health's World Class Commissioning review, and we consider that minimum standards were met in that regard. The PCT is performing well in the area of engaging with stakeholders, with strong links to its diverse communities, and in managing spending where its resource limits have been met in both 2007/08 and 2008/09, although this will remain a challenging area for the PCT in the current economic climate. The PCT is developing a clearer understanding of its costs including the link between health and social care costs. Although the PCT uses benchmarking to review key services, it is not taking advantage of the data available by joining the NHS Benchmarking Club. Budget monitoring is timely, although financial reporting to the Board still requires development of sensitivity and cost analysis. Reporting of financial and performance information to the public was not taking adequate account of the needs of Norfolk's diverse communities for access to this information, although we are aware of progress in this area since the year-end.</p>

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.1 (financial planning)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The PCT integrates financial planning with its strategic and service planning on a medium to long term basis. This has seen significant development in 2008/09 reflecting the move from the turnaround strategy necessary to address the deficits inherited on inception in 2006/07, to one where the PCT can plan to achieve its strategic aims. We reached this assessment despite some apparent contra-indications included in the World Class Commissioning (WCC) report. This was on the basis that we were aware that the PCT was taking action to refresh its Medium Term Financial Strategy (MTFS), and the overall Strategic Plan, in the light of the comments from the World Class Commissioning Board. This work has been completed since the year-end. We recognise that this was a recent development, but there had been clear board and stakeholder engagement in the development of the strategy and MTFS.</p> <p>The Trust cannot be sure of the effectiveness of the training provided to develop the financial skills of budget managers. Records have not been kept of attendance at training, and a significant number of managers have indicated that they have received no training in this area.</p> <p>Financial strategies reflect the strategic priorities of the PCT. The programme boards, which include management and key stakeholders, have developed strategies which are funded in the MTFS. Although still undergoing refinement as programme boards and the MTFS develop further, there was evidence of strategies being ‘joined up’. The PCT was seeking to address the issues raised by the WCC review regarding the need for boldness in divesting and reinvesting in new areas via the new Strategic Plan and MTFS. It is too early to see clear outcomes yet, although a key stakeholder ‘Bold and Ambitious’ two day event held in March 2009 demonstrated obvious progress in this area.</p>	

KLOE 1.1 (financial planning) (cont)

The PCT has a good knowledge of the communities it serves and assesses the impact of its policies on them, especially on the most vulnerable. It uses equality impact assessments to ensure that services are equally accessible across both rural and urban areas, for example dental access. The PCT engages well with its diverse communities through the innovative use of consultation and public involvement on both setting priorities, on significant financial decisions on services and in the design of services through stakeholder representation on programme boards. The use of the programme boards (which contain representatives of the County Council, Patient and Public Involvement leads and Practice Based Commissioning clinical and managerial members) have enabled stakeholders to be fully engaged in the design and resourcing of services.

Managing spending is a relative strength of the PCT with resource limits being met in both 2007/08 and 2008/09. However the management of capital spend is less transparent and requires further development.

The basic requirements for financial governance and leadership are met. There is evidence that the board is collectively responsible for financial matters, and we consider that the board understands the financial environment that PCT operates in. There is a corporate development programme to promote financial literacy including the training of budget managers, but the PCT needs to monitor take up of training to ensure it is effective. The Audit Committee performs well in leading on financial governance issues.

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The PCT is developing a clearer understanding of its costs and the factors that influence them. This includes the links between health and social care costs. The PCT has compared its cost and performance information on disease groups against that of other PCTs and is using this information in service planning to identify areas for investment, such as maternity and reproductive health. Cost and performance information is used in the PCT's framework for making and challenging decisions on efficiency savings or on whether a service should be commissioned or de-commissioned.</p> <p>The PCT is working to extend the use of cost and performance information to make decisions about service provision across all sectors. Clear variables such as cost, quality, clinical indicators and service targets are included in acute contracts but not yet across all types of contracts.</p> <p>Resources are being targeted on priority areas using evidence-based approaches to aid decision making. For example, use of evidence from the Joint Strategic Needs Analysis, combined with analysis of costs and outcomes of services, has led to a refocus of both work and investment in order to reduce the inequality of life experience and outcome between the most and least deprived. The PCT reviews key services using benchmarking data to compare performance and costs. There are examples of this from acute care, mental health and learning disabilities. However it has not yet taken advantage of the wide range of data available from membership of the NHS Benchmarking Club.</p> <p>The PCT scrutinises high cost areas to ensure value for money and has processes in place to realise planned efficiencies. For example, annual savings in excess of £2 million have been made by modifying prescribing practice. The Continuous Improvement Plan (CIP), launched in 2006 to address historic debt, succeeded in delivering savings of £18.385 million against a requirement of £18 million by the target date in 2008. Further efficiency savings were on target to be delivered by each work stream by the end of 2008/09.</p>	

<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The PCT performs acceptably on financial monitoring and forecasting. Budget monitoring is timely, as is financial reporting to the Board although this is not yet fully developed in terms of sensitivity and cost analysis. The transparency of the linkages between financial and performance reporting to Board are also not yet sufficiently clear to demonstrate performance above minimum requirements.</p> <p>Budget variances are reported and challenged by the Performance Assessment Review group and actions to address them are identified. This control by the centre may have impacted on the ownership of budget by budget managers, an issue highlighted by Internal Audit’s review of budgetary control which received a moderate assurance rating. Internal information used in budgetary control is consistent with financial information reported externally (eg via finance reports to the Board). The PCT have sought to reduce risks associated with key financial partnerships.</p> <p>The PCT is performing adequately in terms of its preparation of its accounts. The 2008/09 accounts were completed and published on time and were free from material error although a number of non-material errors were detected as part of the audit. Working papers were acceptable and supported by additional explanations/investigations where necessary, although there is room for further improvement.</p> <p>The PCT reports on its performance to the community. The 2007/08 annual report and annual audit letter were available to the public on request and appeared on the PCT’s website. External reporting is objective, with areas of concern or under-performance noted. At the time of our review the PCT had not responded adequately to the needs of its diverse communities for access to information. For example, although the Annual Report was available in a variety of formats and media, this was only indicated in English and in normal print at the end of the document. In October 2008 a wide-ranging consultation asked the public how they would like to receive the report in the future. The results include provision of a summary report and better links to accessible formats and we are aware that this has influenced the recent development of the 08/09 report.</p>	

Appendix 1 – Use of resources key findings and conclusions

Governing the business

Theme score - 2	
Key findings and conclusions	
<p>Data quality arrangements are adequate and integrated with planning and management processes. The PCT is working to improve the quality of information from providers and partners. Data systems are managed with secure access and policies and guidance for data security incorporate good practice, although the PCT is aware of the need to keep data security under review. Information is presented clearly and the board receives information that supports decision-making. Projects are monitored and action is taken. The PCT benchmarks itself against national targets and local needs, but is not yet using it as an improvement tool. Methods are still being developed to provide management information to GPs.</p> <p>The arrangements to promote and demonstrate the principles of good governance are adequate overall. Director and officer roles are clear, as is the structure between commissioner and provider, with further strengthening of the non-executive director (NED) structure for the provider arm underway. NEDs and senior officers receive induction with development progressed via personal development plans, training events and 360 degree review. The PCT's leadership has a clear vision of their ambitions for its communities. The ethical framework is certainly adequate, but the PCT needs to provide evidence that it is proactively promoting a strong ethical culture before it can be assessed as 'performing well'. The PCT's key partnerships have appropriate governance arrangements.</p> <p>Risk management (RM) arrangements are adequate and strong in certain areas. A RM strategy is in place and the PCT regularly reviews risks, with Board responsibility through the Board Assurance Framework (BAF), which includes partnership risks. The BAF clearly drives the way the PCT conducts its business. However there is insufficient evidence that the arrangements support the PCT in delivering innovative projects, an area recognised by the WCC review. Counter fraud arrangements are adequate, but there are some weaknesses eg arrangements not extending to partnerships. There is an adequate system of internal control but the business continuity plan has only recently been developed and full testing is incomplete.</p>	

<p>KLOE 2.1 (commissioning and procurement)</p> <p>Score</p> <p>VFM criterion met</p>	<p>Not applicable</p> <p>No</p>
<p>Key findings and conclusions</p>	
<p>For 2008/09, KLOE 2.1 formed a relevant criterion for the purposes of the value for money (VFM) conclusion but was not a scored KLOE for the use of resources assessment.</p>	
<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>NHS Norfolk has adequate arrangements for data quality (DQ) and these are integrated with planning and management processes. However the PCT is aware that it has much to do to improve the quality of information from its community services and providers in areas other than acute care. Policies ensure DQ and appropriate standards for the collection and use of information. Regular reports are provided to the Board on areas where inadequacies exist that require action. The Board receives good quality information to support decision-making, and to monitor performance. However the PCT was still implementing systems to provide information to GPs in primary care that would enable them to make informed commissioning decisions, and the WCC review indicated that for competency 4 the ‘dissemination of information to support clinical decision making’ was only at level 1.</p> <p>Data systems are managed with secure access and policies and guidance for data security incorporate good practice, although the PCT is aware of the need to keep data security under review. The PCT manages the risks arising from the storage and use of information effectively and has complied with national requirements in this respect. A business continuity plan has recently been developed and has been successfully tested in response to a real-time incident.</p> <p>The PCT uses a range of information to monitor its performance, including that of its partnerships, against corporate targets that are aligned to its strategic performances. Projects are monitored and action is taken to achieve improvement.</p>	

Appendix 1 – Use of resources key findings and conclusions

KLOE 2.2 (data quality and use of information) (cont)	
<p>The PCT is not using comparative information to drive improvement. It benchmarks itself against national targets and local needs, but is not yet linking the information to plans for improvement. Methods are still being developed to provide adequate management information to GP practices, although interim measures had been put in place to enable them to benchmark referral patterns and investigate their demand management.</p>	
<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
Key findings and conclusions	
<p>The PCT has the basic arrangements for good governance in place, and is performing well in some areas. Director and officer roles are clear, as is the structure between commissioner and provider, although further strengthening of the non executive director (NED) structure for the provider arm is underway. Non executive directors and senior officers receive appropriate induction with development opportunities progressed through personal development plans, training events and 360 degree review.</p> <p>The PCT has a vision of what it wants to achieve for its communities based on a robust assessment of need and through engagement with stakeholders and local people. It works with independent research organisations to ensure consultation is as representative as possible. This vision has translated into clear priorities that inform strategic planning.</p> <p>The PCT has an ethical framework which certainly addresses the basic requirements, but the PCT needs to provide evidence that it is proactively promoting a strong ethical culture before it can be assessed as 'performing well'. The PCT had not completed the Local Counter Fraud Service staff survey at the time of our review and this may provide some additional evidence about the ethical culture. The survey may also contribute to a demonstration of high levels of awareness and confidence in whistle-blowing arrangements</p> <p>The PCT has adequate governance arrangements in place for its key partnership arrangements. It has identified its significant partnerships and documented the governance arrangements. However regular reviews of the effectiveness of partnership working and a demonstration of effective outcomes and value for money will strengthen the PCT's score in this area.</p>	

<p>KLOE 2.4 (risk management and internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The PCT has implemented arrangements for risk management which are adequate overall, and strong in certain areas. For example it is clear that the Board Assurance Framework drives the way the PCT conducts its business. A risk management strategy is in place. The Board Assurance Framework is reviewed regularly by the Board and updated from the programme board and service risk registers. Partnership risks are identified and incorporated into risk registers. Directors and staff are trained in risk management.</p> <p>The PCT did not provide clear evidence that its arrangements for risk management provide support across the full range of projects. The World Class Commissioning report made reference to the PCT not being innovative and shying away from riskier projects which may indicate some lack of confidence in the strength of risk management arrangements.</p> <p>Counter fraud arrangements are adequate, but there are some weaknesses. For example, arrangements do not extend to partnerships and the Local Counter Fraud Specialist (LCFS) plan for 2008/09 was not underpinned by a comprehensive fraud risk assessment, although we understand there has been recent progress on this latter point. As noted above, the staff survey to demonstrate outcomes in this area has not yet been completed.</p> <p>There is an adequate system of internal control, including the recently re-tendered Internal Audit function, but the business continuity plan has only recently been developed and full testing is incomplete.</p>	

Appendix 1 – Use of resources key findings and conclusions

Managing resources

Theme score - 2	
Key findings and conclusions	
<p>Managing resources has been assessed overall at level 2, but this score is a reflection of a strong performance on asset management and an assessment of workforce planning as below minimum levels.</p> <p>The PCT is performing strongly in respect of asset management to secure value for money, and is actively working with partners. A process is in place to challenge whether assets are required. Information from a 6 facet property survey has been used with information from service planning to assess whether assets are fit for purpose and provide value for money over the longer term. Stakeholder views are taken into account, and representatives from the Patient and Public Involvement forum and local authority sit on the Estates Strategy and Primary Care Premises Policy Groups. Asset management indicators benchmarking the PCT nationally are monitored and show a reduction in backlog maintenance. There is good work with partners and the community to maximise planning and the use of assets to benefit the community. There is strategic planning with partners to ensure new communities are provided with appropriate medical services/ and facilities, particularly in the areas of the county with growth status</p> <p>In terms of workforce planning the PCT has been assessed as not yet at minimum standards, primarily due to concerns on the progression on workforce planning and productivity. The PCT has undertaken a wide range of work to develop its systems for managing its staffing resources, such as the implementation of a new performance management framework, a Talent and Leadership plan and engagement with partners to develop a county workforce plan. However, much of this work was undertaken in the later stages of 2008/09 and our assessment of the arrangements in place at that time was that the PCT's plans were not complete or implemented, and the PCT could not yet demonstrate their effectiveness.</p>	

<p>KLOE 3.2 (strategic asset management)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The PCT has good systems in place to manage its assets and uses them to support the delivery of its strategic priorities and service needs and is considered to be performing well in this area overall.</p> <p>The PCT is developing its strategic plans, partly in response to the WCC review, and thus the strategic approach to asset management will be further refined as a consequence of this. The objectives of the Estates Strategy clearly support the strategic objectives of the PCT and take account of the commissioning plans for the PCT. The Estates strategy has been designed to be led by and integrated with plans for service development, for example, the development of new wards has clearly supported the Intermediate Care service development. Plans for asset management are underpinned by financial plans based on the rationalisation of the estate, including plans for disposal, transfer and efficient use of assets. Stakeholder views are taken into account, and representatives from the Patient and Public Involvement forum sit on the Estates Strategy and Primary Care Premises Policy Groups. Asset management indicators benchmarking the PCT nationally are monitored and show a reduction in backlog maintenance.</p> <p>A process is in place to challenge whether assets are required. Detailed information based on a six facet survey is used with information from service planning to assess whether assets are fit for purpose and provide value for money over the longer term. For example, a review of integrated care looked at services and asset usage on a geographical basis, leading to some rationalisation.</p> <p>There is particularly good work with partners and the community to maximise the benefits of planning and to use assets to benefit the community. Strategic planning is undertaken with partners to ensure new communities are provided with appropriate medical services and facilities, particularly in the areas of the county with growth status. Local authorities are represented on the Estate Strategy group. Joint working has led to the PCT providing car parking for a school whose campus includes a GP surgery and children’s centre. The PCT has developed schemes with partners to utilise space. The Healthy Living Centre in Thetford is used by a range of health professionals, the Drug and Alcohol team, a GP practice, with diagnostic facilities and outpatient facilities for local trusts.</p>	

Appendix 1 – Use of resources key findings and conclusions

KLOE 3.3 (workforce planning)	
Score	1
VFM criterion met	No
Key findings and conclusions	
<p>The PCT has not yet completed putting all of its basic systems in place to develop the workforce it requires to deliver its services. However, there are effective systems to support organisational change and diversity.</p> <p>Management have taken action to address basic staff management systems and this has led to some improvement. For example, the use of staff appraisals has increased, as has the take up of mandatory training, but further improvements are still required. Sickness and absence has reduced through the use of more rigorous systems, but at 7.3 per cent (January 2009) is still some way from the target of 4.5 per cent.</p> <p>Systems are taking shape to develop a productive and skilled workforce, but cannot yet demonstrate effectiveness in all areas. Work within the commissioning programme boards is not yet at a stage where changing roles and the take up of new skills can be reviewed for effectiveness. The Provider Unit only implemented a new performance management framework in February 2009. The Commissioning Arm has done some good work to identify the gaps in skills required for WCC and a programme to address these has started. A Talent and Leadership plan was produced during the past 12 months, but is in the early stages of implementation. The PCT has undertaken a training needs analysis for NPfIT within the workforce and developed a training programme.</p> <p>A significant issue is that the PCT does not yet know what its medium to longer term requirements for staffing and skills are. Some good work has been undertaken with other health and social care providers in Norfolk to undertake workforce planning, based on shared data from all organisations. Programme boards undertaking service planning and redesign will be integrating workforce planning into their work, but are still at too early a stage for staffing requirements to have been quantified. The PCT is developing its understanding of its agency costs.</p>	

KLOE 3.3 (workforce planning) (cont)

The PCT performs more strongly in the management of organisational change. It has a systematic and planned approach to managing the workforce implications of separating the provider arm. Executive directors have held monthly engagement sessions with staff and managers to ensure that there is good staff involvement in the process of organisational change. The PCT uses numerous methods for communication with staff and their representatives on change management issues, for example staff briefings, surgeries and focus groups as well as newsletters and the intranet and has evaluated the effectiveness of its approach to staff communications. The PCT's approach to managing change has led to greater staff understanding of the issues and important input to the planning process for change. Some of the changes affecting the PCT were at an early stage at the time of our review and post implementation reviews had not taken place. Interim reviews to assess the benefits of change against clearly defined success criteria will provide the PCT with opportunities to learn from the results.

The PCT also has effective policies and practices to support equality and diversity. Workforce monitoring shows that the proportion of staff overall from black, minority and ethnic (BME) communities is higher than in the community population, and is over represented in senior roles, although the non medical workforce is less representative. As well as equality schemes in place, the PCT is involved in a range of initiatives to promote diversity, including a staff diversity group. A higher number of staff than the national average believes that the PCT provides equal opportunities for career progression or promotion. However, the PCT has not assessed the effectiveness of its work with staff on diversity issues. Although the PCT makes good provision for information and training to staff on diversity issues, it has not collected evidence from user feedback to assess how users are treated by PCT staff on diversity issues.

In terms of people management, although there has been significant improvement, satisfaction among the PCT's staff is low. Staff satisfaction in the PCT is in the poorest 20 per cent nationally as demonstrated in the 2008 staff survey, although there has been a significant improvement since 2007.

Appendix 2 – Annual summary of use of resources recommendations for 2008/09

- 1 This appendix sets out the annual summary of use of resources recommendations for the PCT issued to date.
- 2 I am about to issue my Use of Resources report to the PCT and will follow up and comment on the recommendations raised in my 2009/10 Annual Audit Letter. The PCT will need to address the areas for improvement identified in my Use of Resources report.
- 3 No formal recommendations arose from my follow up review of provider services.

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Take immediate corporate action to secure savings and/or cut spending.	3	David Stonehouse	Yes	Financial recovery plan developed and agreed at September board meeting. Targeted savings identified for each programme board and a performance monitoring process is in place.	Ongoing to end of year
10	R2 Conclude the review of legal charges and make any necessary revisions to the restated accounts under IFRS.	2	Paul Coker	Yes	Information being gathered from solicitors for review against relevant guidance. Accounts restatement to be revisited if necessary.	31 December 2009
11	R3 Address the areas for improvement identified in my Use of Resources report.	3	Paul Coker and Jean Clark	Yes	UOR action plan presented to September 2009 Audit Committee. Awareness session for all managers being facilitated by internal audit in November 2009. Action plan to be enhanced when Audit Commission report received, also by reference to 2009/10 UOR guidance.	Ongoing to end of year
13	R4 Ensure that the progress with the NCH&C action plan and 'Moving Forward' programme covers the issues suggested in our Follow Up Review of Provider Services report.	3	Matt Colmer	Yes	The specific issues raised have either been addressed, or are being covered by the Moving Forward programme. The Financial Strategy will form part of the Integrated Business Plan (IBP) which will be complete on 16th November.	16 November 2009
15	R5 Continue to monitor progress made by Queen Elizabeth Hospital King's Lynn NHS Trust in implementing recommendations made as a result of payment by results work.	3	David Stonehouse	Yes	Standing item on agenda of Technical, Information and Finance Group meeting.	Ongoing to end of year

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
16	R6 Continue to monitor progress made by Norfolk and Norwich University Hospitals NHS Foundation Trust in implementing recommendations made as a result of payment by results work.	3	Steve Davis	Yes	Standing item on agenda of Technical, Information and Finance Group meeting.	Ongoing to end of year

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