

Annual Audit Letter

Birmingham East and North Primary Care Trust

Audit 2007/08

September 2008



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary

Key messages

- 1 During 2007/08 the PCT worked hard to develop and embed its financial stability and arrangements to ensure value for money from its use of resources. Improvement areas identified following the 2006/07 audit and noted in my 2006/07 Annual Audit Letter have been satisfactorily addressed. As a consequence the PCT's arrangements for ensuring VFM and progress towards achieving key goals and the development of patient services were particularly strong.
- 2 The financial statements presented for audit were of good quality. I issued an unqualified opinion on the PCT's accounts and remuneration report and an unqualified value for money conclusion on 23 June 2008.
- 3 Only minor adjustments were made to the financial statements as a result of my audit. These adjustments did not lead to a change in the overall financial position for the statements. As a result nothing of consequence required reporting to those charged with governance.
- 4 My Auditor's Local Evaluation (ALE) judgement considering the effectiveness of arrangements to deliver value for money concluded that the PCT has improved in all areas, with scores for four themes at a level 3 and a level 4 achieved for VFM. This is a significant achievement and shows the PCT's continued drive for improvement over the last year. The focus on ALE requirements provides a strong foundation from which to build future performance.
- 5 The PCT has continued to work hard to achieve its strategic objectives as outlined in its vision for the future including key goals and core purposes. However the PCT will need to ensure existing service arrangements continue to remain sound while innovative work and new programmes are developed.

Purpose, responsibilities and scope

- 6 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. I have made recommendations to assist the PCT in meeting its responsibilities.
- 7 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. In addition the PCT is planning to publish on its website.
- 8 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.
- 9 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.
- 10 Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health Check.
- 11 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

- 12** I issued an unqualified opinion on the PCT's accounts on 23 June 2008, on 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.
- 13** Before giving my opinion I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2007/08 audit. I issued this report on 17 June 2008. No recommendations were made in this report.

Accounting issues

- 14** No significant issues were identified during the audit. A number of amendments were made to the financial statements, but these related solely to misclassification issues. Although not material, the PCT amended the financial statements to take into account all identified errors.
- 15** Significant work had been undertaken during the year to improve the process for the audit of the financial statements. Draft accounts were timely and had been subject to review by management and the Audit Committee. The quality of working papers had also improved. Previous year recommendations to improve the overall process for the accounts were tracked through Audit Committee and were all implemented. No weaknesses were identified in internal controls.
- 16** A review of the Statement on Internal Control identified that the PCT had correctly declared non compliance against core standards for C20a (healthcare services are provided in environments which promote effective care and optimise health outcomes by being a safe and secure environment which protects patients, staff, visitors and their property, and the physical assets of the organisation) and C20b (Healthcare services are provided in environments which promote effective care and optimise health outcomes by being supportive of patient privacy and confidentiality) in line with Healthcare Commission findings. No other issues were identified.

PCTs' use of resources

- 17 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.
- 18 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

- 19 I concluded that the PCT had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Auditor's Local Evaluation judgement (including financial standing)

- 20 Again, the PCT has taken a positive and proactive approach to the ALE. It has always seen the ALE tool as an integral part of the process of becoming a high performing organisation and has worked hard over the last year to ensure that the arrangements being put in place to support its improvement journey have been the right ones for the organisation. The PCT has also focused on ensuring that the arrangements have been properly implemented and can now demonstrate that they are embedded across service areas.
- 21 I have judged four of the five themes as reaching level 3 performance - performing well, with processes and systems consistently operating above minimum requirements. VFM reached level 4, which is an outstanding achievement. I issued a detailed report supporting my assessment and highlighting areas for improvement to the PCT on 4 September 2008.

Table 1 ALE scores

Theme	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	4 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

- 22 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.
- 23 The PCT has continued to work extremely hard to improve upon an overall score of 2 last year which arose from a deficit position. Improvements to the score were as a result of increased scores for financial reporting, financial standing and value for money where the highest score of 4 was reported.
- 24 We identified good practice in relation to VFM in two areas in particular, both of which have been shared nationally as good practice:
- the use of Neighbourhood Health Development Officers; and
 - the Gateway process.
- 25 Significant progress has been made in internal control with the Audit Committee providing clear support to the organisation's overall governance arrangements.
- 26 The areas for improvement which we identified are already being acted upon. Data quality arrangements have already been strengthened and a stronger link has been made between service developments and finance to ensure smooth and more timely implementation. The Audit Committee continues to grow in strength and risk management and fraud arrangements are good. Minor improvements identified for the PCT are included in more detail in the ALE report.

Financial Standing

- 27 The PCT has good arrangements in place to manage its spending in line within its available resources. It met its statutory break-even duty, revenue resource limit and capital resource limit in 2007/08. However, it did not achieve the Better Payments Practice Code target of paying all undisputed invoices within the due date and should continue to work with the Birmingham Primary Care Shared Services Agency (BPCSSA) to improve its payment performance.

- 28 The PCT's financial position continues to look strong for 2008/09. The PCT has also developed eight key financial indicators (KFIs), alongside the three statutory duties, to report the financial position as the year progresses. It reported a surplus of £1,900k at the end of June 2008 against a budgeted surplus of £1,079k, but remains on track to achieve its forecast surplus for the year. The main risk to the PCT's financial standing is the current over-performance on the HoEFT contract. To address this, the PCT currently has a nine point action plan designed to take activity and cost out of the system. This plan is being monitored through weekly meetings held within the PCT. This process will ensure the PCT will be able to manage activity and cost levels for the year.

Specific risk-based work

- 29 I carried out specific pieces of work as follows.
- Health Inequalities and Partnership working.
 - Review of BPCSSA.
 - LIFT.
 - PCT as a provider.
 - Review of commissioning - hosted services.
 - Review of commissioning - mental health.

Tackling Health Inequalities

- 30 During 2007/08 I undertook an overview of arrangements within Birmingham for tackling health inequalities. My review took account of other work undertaken in year by the Department of Health National Support Team (NST) during November and December 2007 and drew on a detailed self assessment which the partners within Birmingham agreed to undertake around the key themes of:
- delivering strategic and operational objectives;
 - delivering in partnership;
 - using information and intelligence to drive decisions;
 - securing engagement from the workforce;
 - performance management; and
 - corporate responsibility.
- 31 My review focussed on the arrangements in place across Birmingham as led by the Birmingham Health and Wellbeing Partnership (BHWP), but in 2007/08 did not focus in detail on arrangements in place within individual organisations to tackle health inequalities. I also did not seek to comment on the effectiveness of particular interventions designed to tackle health inequalities.

PCTs' use of resources

- 32 I concluded that the BHWP provides strong leadership around health inequalities, is able to demonstrate a good understanding of local health inequalities and directs resources appropriately to narrow the health inequalities gap.
- 33 The BHWP have developed and established a range of initiatives aimed at tackling health inequalities, many of which are innovative and are seen to be leading the way nationally. The BHWP is tackling the huge agenda of health inequalities in a constructive way.
- 34 However, at the time of my review partners did not have an overarching strategic framework to ensure that local interventions deliver the maximum health impact. Accountability was unclear for some priorities, and a sophisticated approach to targeted, value for money interventions needed to be better understood.
- 35 Since I reported initial findings to the BHWP in February 2008 it has taken forward work on the development of its governance and planning structures. Work strands on tackling health inequality are now brought together under one thematic priority for the partnership. This is led by one of the chief executives of the partnership on behalf of the Executive.
- 36 Some work has also started on developing an overarching strategic framework, and on renewing delivery plans. Timescales have been for producing an annual plan for the partnership which will come into effect next year, with a key aim of defining the contribution of mainstream resources from each of the key partners.
- 37 I am discussing the scope for further follow up work in this area with the BHWP executive around the contribution of mainstream services to health inequalities, especially sport and leisure; and targeting of locality work.

Birmingham Primary Care Shared Services Agency (BPCSSA)

- 38 The BPCSSA was set up in 2002 to meet the shared service requirements of the four Birmingham PCTs which were established at that time. These services include contracting and financial services, estates and information and communications technology. While the BPCSSA is responsible for the delivery of services in line with agreed service levels, it is incumbent upon the client organisations to put in place robust arrangements for performance management.
- 39 In 2006/07 I undertook a service review at two of the other client organisations to assess the way in which shared services provision was managed. The aim of this review was to assess the way in which BEN is managing its shared service provision, building upon the findings of these earlier reviews. The review sought to establish:
 - whether there is a clear, shared strategic vision for the delivery of shared services, and
 - whether there are satisfactory procedures in place in each of the PCTs for managing the shared service and demonstrating VFM.

- 40 My overall conclusion was that the strategic vision and direction in which shared services are moving needs to be more supported through control mechanisms to achieve the agreed vision of the service. Improvements were identified as being required in governance arrangements, business planning, performance management and consultation arrangements. The PCT has responded by commissioning Internal Audit to consider a number of areas raised to provide an overarching strategic view of the Agency's current position.
- 41 Key areas for action arising from my review include:
- the need to ensure governance arrangements are up to date including updating stakeholder agreements and ensuring SLAs are signed;
 - deriving a clear set of shared values and vision with other stakeholders; and
 - ensuring more transparent costing of services and sharing of new initiatives so all clients can secure improved performance management.

Mental Health commissioning

- 42 BEN PCT, South Birmingham PCT and Heart of Birmingham tPCT commission mental health services for adults and older adults from their main provider Birmingham and Solihull Mental Health Trust (BSMHT), as well as from a range of independent and voluntary sector providers.
- 43 The three PCTs have a joint part cost and volume contract with BSMHT and are currently working with the Trust to further develop contract currencies for mental health services. BEN PCT is the lead commissioner for mental health and the host PCT for the contract with BSMHT.
- 44 In 2007/08 I undertook a review to assess the three Birmingham PCTs' strategic approach to mental health commissioning and review progress towards agreeing a cost and volume contract and tariff for mental health services. A summary of my main findings is set out below.
- 45 My overall conclusion was that the PCTs are now working well together to strengthen mental health commissioning. They have focused in particular on strengthening the contract with BSMHT as the main provider and are working with the Trust to agree appropriate outcome measures. The development of a joint commissioning team across the three PCTs is a key step forward and should provide the PCTs with the skills and capacity to develop a clear programme of work to deliver commissioning priorities.
- 46 The PCTs are working together, and with Birmingham City Council through the Joint Commissioning Group (JCG), to develop a pan-Birmingham commissioning strategy for adult mental health. Commissioning structures facilitate input from key stakeholders and links to wider priorities.

PCTs' use of resources

- 47 Key areas for further improvement identified in my review include the need to:
- bring together existing information on needs and make better use of public health resources from each PCT to inform future needs assessments;
 - integrate financial plans more clearly within commissioning strategies;
 - more closely integrate work on engagement with service users, carers and other stakeholders with the mainstream Public & Patient Involvement work of the PCTs;
 - ensure that service user feedback is a key part of evaluating performance and success in implementing commissioning plans;
 - formally monitor agreed milestones for service delivery;
 - formalise reporting to the JCG and ensure that the respective roles of the Performance Review Group and JCG are clear; and
 - further develop arrangements for evaluating the impact of service developments and involving service users and carers at all stages in the process.
- 48 I have agreed a detailed report and action plan with the Mental Health Joint Commissioning Group and will be following up implementation of my recommendations in 2008/09.

Review of Lead Specialised Commissioning Arrangements

- 49 BEN PCT has been the host body for a number of services commissioned by various bodies across the West Midlands since 2005. These have included the West Midlands Specialised Services Agency (WMSSA), the Pan-Birmingham Specialised Services Consortium (PBSSC) and the Black Country Specialised Commissioning Group (BCSCG).
- 50 A new West Midlands Strategic Commissioning Group (WMSCG) was established from 1 April 2007, its primary responsibility being commissioning of all specialised services on behalf of the 17 West Midlands PCTs. Following regional configuration, this now includes Shropshire & Staffordshire, Hereford & Worcester and Coventry & Warwickshire. The new commissioning arrangements cover a population of 5.3m and have an indicative budget of approximately £620m.
- 51 My review considered the new structure and governance arrangements established for the WMSCG and specifically the newly formed West Midlands Specialised Commissioning team (SCT(WM)) following its take on of the additional commissioning bodies. The review also considered the recommendations of the Carter review an independent study requested by the DoH to look at ways to commission specialised services to make arrangements more robust, consistent and to ensure a good fit with the wider NHS reformed structures, organisation and powers.
- 52 The West Midlands region has had a very well developed set of commissioning arrangements at both the regional and local levels. The single region wide commissioning team is well placed to continue this development and the establishment of the Group was in line with the model proposed within the Carter review.

- 53** I identified a number of improvements required to strengthen current arrangements. These include:
- the need to continue work to ensure the eliciting and documenting of patient and public views in developing commissioning proposals; and
 - the need to ensure more consistent reporting to participating PCTs on expenditure, activity and performance information from their Local Collaborative Commissioning Board (LCCB) and the SCT(WM).
- 54** The Carter review considers the attributes that are required for successful commissioners. It denotes success will depend upon commissioners having the necessary authority, credibility and expertise. Commissioning powers are governed and explicit, and the SCT(WM) has the breadth of multi-professionals required and benefits from a level of experience in commissioning expertise that should engender trust from providers and patient representatives. The SCT(WM) has however suffered from a lack of capacity with respect to information. This needs to be addressed to allow for effective information analysis and comparison of services that will promote value for money.

LIFT

- 55** The Local Improvement Finance Trust (LIFT) is a Department of Health initiative which provides a framework that enables the public and private sector to work together to deliver investment in new primary care assets such as GP surgeries and health centres. The local health economy (LHE) of Birmingham and Solihull formed LIFTCo in 2004 to provide serviced health facilities under lease plus agreements. The company providing these services, Birmingham and Solihull LIFT Company (BaS), is a joint venture between the LHE, Communities for Health and Prime plc, the private sector partner.
- 56** During 2007/08 I undertook a review to ensure the PCT is able to demonstrate that LIFT schemes meet its strategic objectives, are value for money and that the PCTs plans for monitoring operational schemes are fit for purpose.

Main conclusions

- 57** My main conclusion is that the PCT has many measures in place to achieve LIFT objectives. Key opportunities for improvement identified in my review include action to be taken around the following.
- Strategic fit
 - The need for the PCT to retain an audit trail that demonstrates why the particular sites chosen for LIFT developments fit the PCT's criteria better than others.
 - Monitoring BaS
 - Asking the strategic partnership board to hold a formal review of the operation of the strategic partnering agreement each year.

PCTs' use of resources

- Value for money
 - Seek information that tests the VFM of future schemes by the comparison with other non-LIFT schemes in the primary sector.
- Monitoring of operational schemes
 - Document how the PCT plans to gain adequate assurance that LIFT schemes are being monitored effectively during their operational phase.

PCT as a provider

- 58** I undertook a review of the allocation of health visitors and the resources for locality commissioning. Whilst it is clear that commissioning Locality budgets for health visiting should be adjusted, the degree to which budgets should be adjusted is open to debate because of the different data sources and weighting factors in use in the PCT. The analysis in my report is presented to highlight the different results based on the GP list and public health data, rather than to advocate possible levels of allocation. It is not clear which data set is more reliable and I am not suggesting that either should be used as the basis for any decisions.
- 59** The work I have undertaken identifies the need for the role of the public health team to be strengthened in providing support to commissioners. This should include:
- identifying/developing a reliable standard set of population figures as the basis for analysis. This should be based on a clear definition of what is included and how it differs from other possible data sets. Where the analysis will not be undertaken directly by the Public Health team the PCT should provide clear guidance on the appropriate use of weighting factors; and
 - provision of clear guidance to commissioners on how to use the epidemiological data set to support planning assumptions, including the role of the Public Health team in providing support.
- 60** The above factors should enable the PCT to redistribute the health visitor resources to better reflect the need in the Localities by applying appropriate weighting factors.

Payment by Results Assurance Framework

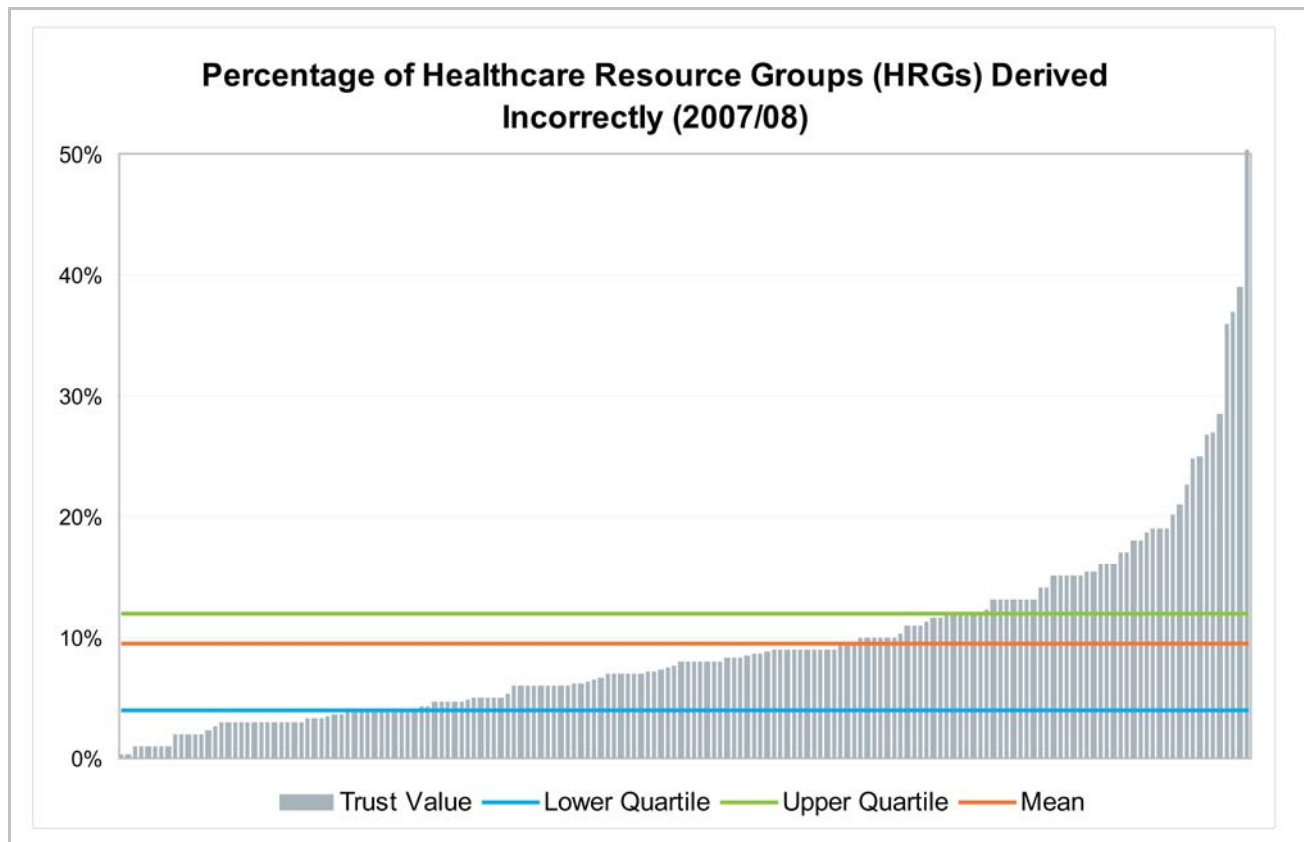
- 61** The aim of Payment by Results (PbR) is to provide a transparent, rules-based system that links payments directly to activity. Accurate monitoring of both payments and activity is important to confirm that the system operates properly based on appropriate tariffs.
- 62** Recorded diagnoses and procedures are key factors of the Healthcare Resource Group (HRG) to which each patient is assigned, and hence the tariff which is applied. Poorly coded data can result in inaccurate HRG assignment and therefore inaccurate payments.

- 63 The PbR Data Assurance Framework is a national rolling programme of work developed, managed and delivered by the Audit Commission which is being delivered for the first time in 2007/08 as part of PCT audits. The work is designed to support improvement of:
- data quality standards that underpin the accuracy of coding and payments under PbR; and
 - data coding and associated arrangements.
- 64 This programme consisted of an independent external review of clinical coding covering all NHS Trusts in England undertaken by qualified clinical coders. The review formed part of PCT audits given their significant commissioning role of services from NHS Trusts.
- 65 Following the review, both PCTs and Trusts received two reports. A detailed clinical coding audit report set out the extent to which HRGs were miscoded for a sample of patients across a number of specialties based on the clinical coders' findings. A second PCT report summarised these findings and quantified the financial effect of miscodings on the prices charged by Trusts.
- 66 BEN PCT is the host for and significant user of services from Heart of England Foundation Trust (HoEFT). A summary of findings is shown in the table overleaf.

Main findings from areas audited

Overall results for Trust	% of episodes changing HRG	Net % difference between pre and post audit pricing	Main findings
HoEFT	11%	1.7%	<ul style="list-style-type: none"> • A specific workforce plan or 'coding strategy' should be developed and implemented to promote recruitment and retention of coding staff. • Improved opportunities for training for coding staff, including refresher courses, specialty workshops, and encouragement to achieve National Clinical Coding Qualification. • Establish a routine programme of internal coding audits, including meetings with clinicians and coders across all specialties, to learn from coding errors and improve accuracy. • Review the quality of clinical case notes available to coding staff at the time of coding and take action to improve access to information in support of coding staff decisions.
			<ul style="list-style-type: none"> • Improve the capability of PAS software used for recording of clinical codes to accept fifth digit codes. • Revise the process of coding of admissions to the Tony Cross Decisions Unit in order to resolve the problem of lack of information at the time of coding.

67 An analysis of the national results of the 2007/08 audits indicate that the national average error rate for HRGs was found to be 9.4 per cent. The upper quartile of errors was 12 per cent and the lower quartile was 4 per cent. A national summary is shown in the following figure. At 11 per cent, the average error rate for HoEFT is comparatively high compared with other Trusts.

Figure 1 National summary

- 68** The PCT should, as host and significant user of the Trust, discuss the proposed recommendations and what actions will be taken in response to issues identified with the Trust. The new standard contract requires commissioners and providers to follow up the results of the data assurance framework.

National Fraud Initiative

- 69** 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.
- 70** The PCT audit committee has received regular updates during the year on NFI issues that have been reported by the Local Counter Fraud Specialist (LCFS). The LCFS has also undertaken follow up work on issues raised. Referrals from the current NFI exercise were released to participating bodies in January 2007.

Closing remarks

- 71 I have discussed and agreed this letter with the Chief Executive and the Director of Resources and I have shared this letter with the Non Executive Directors who form the Audit Committee. I will present this letter at the Board on 17 December 2008.
- 72 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.

Table 2 Reports issued

Report	Date of issue
Audit plan	May 2007
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for money conclusion	June 2008
Auditor's local evaluation	September 2008
Annual audit letter	September 2008
Review of BPCSSA	May 2008
LIFT	August 2008
Review of commissioning arrangements - hosted services	May 2008
Review of commissioning arrangements - mental health	August 2008

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- 73 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.

John Gregory
District Auditor
September 2008

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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