



Accountants &
business advisers

Medway Primary Care Trust

Annual Audit Letter 2010/11

Report to the Directors of the Board

September 2011

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codenhs.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

Executive summary

This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out at Medway Primary Care Trust (the PCT) during the year. We have previously reported the detailed findings from our audit work and a list of reports issued during the year is shown in the Appendix to this letter. No new recommendations are included in this Letter.

Key findings

The PCT managed its overall financial position well throughout the year, reporting a surplus of £3.2 million as at 31 March 2011. The surplus was achieved after using planned contingent amounts and represents a positive achievement for the organisation. The planned reduction in budgets in 2011/12 and beyond presents a significant challenge the PCT and its partners across the Kent and Medway area PCT 'cluster' (of primary care trusts) should continue to rise to.

Medway PCT has continued to respond to the Government's plans for the future structure of the NHS. It has continued to work successfully with partners and within the newly established Kent and Medway PCT 'cluster', developing its governance arrangements to address financial and operational risks identified for the area. Over the last twelve months, the PCT successfully managed the transition of community healthcare services to a Community Interest Company, the transfer of services such as learning disabilities to Medway Council and the further development of acute hospital services with Medway Foundation Trust.

A summary of key findings from our audit work is included in the table below:

Area	Conclusion
Financial statements	<p>We issued unqualified 'true and fair' and 'regularity' opinions on the 2010/11 financial statements. The PCT's arrangements for preparing its financial statements in accordance with the Government's deadlines remain effective. No material misstatements were identified by our audit work.</p> <p>Working with internal audit, we highlighted weaknesses in the PCT's payroll authorisation processes for starters, leavers and amendments to standing data. Action has been taken by management to address such weaknesses.</p>
Use of resources	<p>Value for money conclusion</p> <p>We reviewed the PCT's arrangements for securing financial resilience and economy, efficiency and effectiveness in the use of resources. We also reviewed the further development of management arrangements under the national Payment by Results programme.</p> <p>We issued an unqualified value for money conclusion which is an improvement on the position reported in 2009/10 when the opinion was qualified. The PCT has taken the action necessary to establish arrangements for managing its natural resources.</p> <p>Financial resilience</p> <p>The PCT achieved its statutory financial targets and maintained expenditure within the cash limit specified by the Department of Health. The budgeted surplus for the year (£4.3 million) was achieved. The PCT utilised available contingency resources to manage the effects of slippage in its efficiency programme and to meet the costs arising from the increased demand for acute hospital services. As in previous years, the PCT has managed its overall financial position effectively, with comprehensive reports provided to the Board to inform the financial planning and reporting processes.</p> <p>The PCT managed financial risks effectively throughout the year. In particular, the transfer of responsibilities for community healthcare services was achieved in accordance with published plans. The PCT has developed its financial planning processes to ensure financial risks identified by the Kent and Medway PCT 'cluster' are consistently understood and managed.</p>

Area	Conclusion
<p>Use of resources continued</p>	<p>Challenging economy, efficiency and effectiveness</p> <p>The development of cost improvement plans to support the delivery of the 2010/11 financial budget enabled the PCT to consider and then challenge existing service provision, involving partners such as clinicians, local providers and GPs (managed through the whole system delivery board). The PCT has established effective management arrangements, through the work of the Finance Committee and the Transition Programme Board, to oversee delivery of its challenging efficiency programme. Individual efficiency projects, such as the promotion of script switch and the rationalisation of the estate portfolio, are supported by comprehensive delivery plans. The PCT also specifies the expected benefit of action taken, which is then evaluated for impact. The PCT is also working with acute providers of healthcare towards joint efficiency plans to improve consultant referral patterns and reduce the average length of stay in hospitals. .</p> <p>Payment by Results (PbR) assurance framework</p> <p>The PbR assurance framework has continued to develop through the work of the Acute Contract Team (ACT). Through the regular reports produced by the ACT, Medway understands the financial impact of performance across its contracts and has underpinned the process with enhanced data quality arrangements. The PCT has continued to work with the Medway GP Consortium Management Board to promote better understanding of data quality matters and the impact on GP budgets through regular training and update meetings. The PCT's main healthcare providers respond positively to data quality issues and Medway has, through its regular meetings with the local Foundation Trust, overseen a reduction in coding errors reported over the last 12 months.</p>

Looking ahead

The PCT's financial plan for the 2011/12 year involves expenditure of £441 million. To achieve the plan, the PCT will need to deliver savings amounting to £18.4 million and a surplus of £4.5 million. The PCT has identified the achievement of the 2011/12 budget involves significant risks which it is keeping under review. The PCT has identified further contingent amounts and reductions in expenditure to ensure it meets its statutory financial targets. The PCT has specified a range of efficiency and cost saving measures, including targeted and effective demand management initiatives to reduce activity within acute hospital contracts and to deliver recurrent savings. The PCT Board has approved an enhanced Quality, Innovation, Productivity and Prevention programme (QIPP), providing a comprehensive analysis of activity over a four year period to 2014/15.

Future of the NHS

By April 2013, subject to the passage of the Government's Health and Social Care Bill, all GP practices should be members of a commissioning group authorised to commission services, or a 'shadow' commissioning group, legally established but with the NHS Commissioning Board undertaking certain specified functions. The PCT is continuing to work with the Kent and Medway 'cluster' Board to implement the Government's plans. The PCT is planning for its abolition on 31 March 2013.

Introduction

About the PCT

Medway Primary Care Trust (NHS Medway - the PCT) spends in excess of £440 million annually in commissioning healthcare services for the Medway area. The majority of expenditure is incurred with providers of health and social care services. Many services are delivered directly by General Practitioners (GPs) under contracts with the PCT across the 67 GP practices operating in Medway. Acute services, such as hospital admissions, are commissioned from local and national providers, with the majority being delivered locally by Medway Foundation Trust.

During 2010/11, NHS Medway finalised its preparations for the transfer of responsibilities for community healthcare services. The transfer took place on 1 April 2011 through the establishment of a social enterprise (Community Interest Company) known as Medway Community Healthcare. The PCT also works closely with Medway Council to commission and provide integrated services to children and adults; older and vulnerable people and residents with specific needs such as learning and physical disabilities.

Since June 2011, the Kent and Medway 'cluster' Board has assumed joint management responsibilities for the three primary care trusts operating in the area (Medway PCT; West Kent PCT and East Kent PCT). Further information about the PCT is provided in its 2011 Annual Report which is publicly available on the NHS Medway's website at www.medwaypct.nhs.uk.

The purpose of this Letter

The purpose of this Letter is to summarise the key issues arising from the work we have carried out during the year. While the Letter is addressed to the Directors of the Board, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and the PCT's website.

Responsibilities of the auditors and the PCT

We have been appointed as the PCT's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the PCT's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the PCT achieving its objectives. It is the responsibility of the PCT to ensure proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how well the PCT is fulfilling these responsibilities.

The scope of our work

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the PCT's financial statements
- whether the PCT has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Acknowledgement

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the PCT's own agenda. We value your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of the audit.

Key findings

Financial statements

The PCT's key financial systems are sufficient as a basis for preparing the financial statements. We were able to rely on the effective operation of key financial controls throughout the year.

We issued an unqualified opinion on the PCT's financial statements on 10 June 2011, meeting the deadline set by the Department of Health. Our opinion confirmed the financial statements gave a true and fair view of the PCT's financial affairs as at 31 March 2011 and of the income and expenditure recorded during the year.

We recommended management amend the financial statements in the light of our audit work. The Finance Director, in full discussion with the Audit Committee, decided the following amendments should not be made because the overall effect was not material and did not affect the surplus reported by the PCT:

- the Trade and Other Receivables balance and an associated impairment were overstated by £670,000. The position arose because a debtor account for a Foundation Trust raised on 29 March 2011 was subsequently fully impaired. No evidence was provided to support the invoice or the impairment
- the Trade and Other Payables balance includes debit amounts totalling £825,000. The majority of the amount involves credit notes provided to the PCT by Kent County Council which could not be matched to invoices because the (original) account had been paid (by the PCT). As a result, Trade and Other Payables balance is understated and the Trade and Other Receivables balance is understated by £825,000.

We also highlighted the PCT paid a Foundation Trust £1.5 million in the year in respect of Partially Completed Spells (patients part way through treatment on 31 March). In previous years, the PCT has accrued such amounts with payment being made only when care was confirmed as complete. We did not recommend the statements should be amended but drew the transaction and the accounting treatment to the Audit Committee's attention.

Working with Internal Audit, we reported weaknesses in the operation of payroll authorisation processes for starters, leavers and amendments to employee standing data. The PCT is taking steps to improve controls operating within the Electronic Staff Records system to address such weaknesses.

The Statement on Internal Control was not inconsistent or misleading with other information we were aware of from our audit of the financial statements. We were satisfied the Annual Report was not inconsistent with the financial statements and that the Remuneration Report had been properly prepared. An unqualified audit opinion was provided on the summary accounts included within the Annual Report.

Our audit work confirmed that, in all material respects, expenditure and income were applied for the purposes intended by Parliament and our 'regularity' opinion was unqualified.

Statutory financial targets

The PCT achieved the three statutory financial targets set by the Department of Health managing revenue resources (the Revenue Resource Limit); managing capital resources (the Capital Resource Limit) and recovering the costs of providing services. It also managed its expenditure within the cash limit specified by the Department of Health. These are positive achievements for the organisation at a time of considerable change and uncertainty for the NHS and the challenging economic environment the PCT is operating in.

Use of resources

The Code of Audit Practice requires us to be satisfied proper arrangements have been made by the PCT to secure economy, efficiency and effectiveness in the use of resources. This is known as the 'value for money conclusion'. Our principal work in arriving at our value for money conclusion involved comparing the PCT's performance against characteristics specified by the Audit Commission in its guidance to auditors. The focus of our work in 2010/11 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources. We also reviewed the further development of management arrangements under the national Payment by Results programme.

Our financial resilience work considered the PCT's arrangements for financial governance, financial planning and financial control. Our review of economy, efficiency and effectiveness considered the PCT's arrangements for prioritising resources and improving efficiency and productivity.

Financial resilience

The PCT maintained effective financial management arrangements throughout the year and clear corporate leadership continues to ensure Medway's overall financial position is understood across the organisation and among partners. The budgeted surplus for the year (£4.3 million) was achieved ensuring the PCT met its statutory financial targets.

The 2010/11 Cost Improvement Programme amounted to £21 million. Some slippage occurred on a small number of projects and the additional demand and associated cost of acute hospital contracts were met from available contingency amounts. The PCT expects to realise the benefit from delayed efficiency projects in 2011/12 and beyond. However, the efficiency programme will continue to require careful management and review and remains a risk to achieving the planned surplus by 31 March 2012.

The PCT managed identified financial risks throughout the year, particularly the transfer of community healthcare services to a newly established Community Interest Company (CIC). The PCT worked with the shadow CIC Board to establish detailed financial plans for the 2011/12 year and over the medium term. Due diligence work was completed by external financial consultants, with the outcome reviewed and action agreed in partnership with the shadow Board. The Finance Committee retained close oversight of the financial planning processes, ensuring a common financial agenda was shared and understood in the lead up to the transfer of services. The Audit Committee received updates on progress towards financial targets throughout the year, challenging proposed management action accordingly.

The PCT also developed its financial planning processes to ensure financial risks identified by the Kent and Medway 'cluster' are understood and mitigated. The establishment of a joint Audit Committee should bring further focus and understanding to shared financial risks. The PCT maintained effective financial controls through a period of major uncertainty for the NHS and in the aftermath of the Government's announcement that PCT responsibilities would transfer to other organisations after 31 March 2013.

Financial outlook

The PCT is planning to spend £441 million in 2011/12. It has published an efficiency programme amounting to £18.4 million and plans to achieve a surplus of £4.5 million. The PCT understands the risk of further demand for its services arising from continuing (national) economic pressures and the Board recognises the achievement of planned efficiencies remains challenging.

As at 30 June 2011, the PCT is reporting a surplus of £1.5 million which meets the planned amount to date. A potential shortfall of £7.4 million in the 2011/12 efficiency programme has been identified and further work is underway to ensure financial balance is achieved while reducing the need to use contingent budgets.

Challenging economy, efficiency and effectiveness

The PCT consulted widely on its efficiency plans for the year. The process involved local clinicians; healthcare providers, local authorities and GPs. The 'whole system delivery board' is charged with responsibility for monitoring the financial stability of the organisation with the Finance Committee and the Transition Programme Board receiving regular updates. The PCT prioritised areas for review based on its assessments. It identified a range of investment scenarios; potential efficiencies and cost savings. For instance, demand management initiatives to reduce referrals of patients to hospitals were published in the PCT's Quality, Innovation, Productivity and Prevention programme (QIPP), providing a comprehensive analysis of achievable savings over a four year period to 2014/15.

Individual projects within the QIPP, such as the promotion of 'script switch' and the rationalisation of the estates portfolio, are supported by comprehensive delivery plans specifying the expected benefits and impact of the PCT's work. Outcomes are evaluated as planned actions are delivered. The PCT also evidences its understanding of the scope to improve efficiency within agreed contracts, by reviewing consultant referral patterns and average length of patient stay while working with healthcare providers towards joint outcomes.

NHS reforms

The PCTs involved in the Kent and Medway 'cluster' have worked collaboratively towards the Department of Health guidance for '*PCT Cluster implementation*'. The 'cluster' Board operated in shadow form in the year and was fully established to meet the Government's timetable of 30 June 2011. The 'cluster' Chief Executive and other key Executive Directors have now taken up their positions.

A commissioning development and transition plan is due to be in place by 30 September 2011. The plan is being developed in the light of work completed by the 'cluster' Board and should finalise proposals to establish the new NHS commissioning structures advocated by the Government. Overall the PCT is responding positively to NHS reforms with its strategic partners.

Payment by Results assurance framework

Management arrangements review

We complete a review of the PCT's management arrangements using the methodologies published by the Audit Commission for the Payment by Results (PbR) Assurance Framework. As in previous years, the PCT relies on the work of the Acute Contract Team (ACT) under agreed terms and conditions to progress PbR matters. The ACT therefore undertakes negotiation and contracting services with healthcare providers, as well as contract monitoring and payment services for Medway.

Arrangements for monitoring the financial impact of performance against contracts are generally effective. Arrangements for ensuring data quality have progressed over the last 12 months and are adequate overall. The PCT requires the ACT to undertake a programme of data quality reviews; to highlight weaknesses and to ensure final contract reports and Secondary Uses Service submissions are robust. Clinical data audits are periodically completed by the ACT at Medway's acute hospitals. Overall, a comprehensive programme of data quality audits is in place.

The PCT continues to work with GPs to promote understanding of data quality matters and the impact on GP budgets. Regular training and update meetings are provided to the Medway GP Consortium Management Board. However, further work is needed to ensure GPs utilise available data about cost and activity more systematically and to complement the financial monitoring of delegated budgets.

The PCT's main acute provider (Foundation Trust) has taken steps to improve data quality, though further work is needed to improve paper case-notes. The PCT has, through its regular meetings with the Trust, reviewed progress against the PbR Assurance coding audit action plans to further improve inpatient coding accuracy. Weaknesses in coding outpatient activity are being addressed and the Audit Commission is expected to review progress through its 2011/12 programme of PbR audits.

Value for money conclusion

Our use of resources work confirms that the PCT has established adequate arrangements to secure value for money. This is an improvement on the position reported in 2009/10 when our opinion was qualified because the PCT had not established arrangements to secure value for money in the use of natural resources. The PCT has taken action to address the situation in 2010/11. We provided an unqualified value for money conclusion for the year on 10 June 2011.

The future of the NHS

The PCT is continuing to make progress towards the actions specified by the Government in its 2010 White Paper entitled *'Equity and Excellence: Liberating the NHS'*. The PCT, and its partners, have supported the Government's plans by:

- maintaining effective arrangements for its finances, operational performance and quality
- prioritising resources away from administration costs and towards healthcare
- continuing to work on efficiency plans and contributing to the consultation published as part of the White Paper process
- building relationships with the new patient and public engagement arrangements
- working with local authorities and other social care partners on managing financial and service pressures
- engaging with clinical leaders and partners; building support and understanding of the change; and contributing to national, regional and local implementation

Following a Government listening exercise on the draft Health and Social Care Bill and a report published by the NHS Future Forum, the Department of Health issued a revised transition plan and timetable on 20 June 2011. The key developments, subject to the passage of the Health and Social Care Bill are:

- PCT clusters will remain in place until 31 March 2013
- Strategic health authorities (SHAs) will remain in their current statutory roles for the whole of 2012/13 and will be abolished with PCTs on 31 March 2013
- the NHS Commissioning Board and the other new national bodies will take up their full accountability and financial responsibilities from 1 April 2013
- four clusters of SHAs will be formed; the intention is for these to be in place by October 2011
- by April 2013, all GP practices will be members of either a commissioning group authorised to commission some or all services, or a 'shadow' commissioning group.

Other planned changes include re-invigorating clinical networks and establishing clinical senates across the country. The groups, to be hosted in due course by the NHS Commissioning Board, will have a critical role to play in ensuring there is broad clinical involvement in the commissioning process and particularly in the design of complex care pathways.

Appendix: Reports issued in relation to the 2010/11 audit

Report	Date Issued
Audit fee letter	April 2010
Audit plan	January 2011
Annual governance report	June 2011
Annual audit letter	September 2011