

Annual Audit Letter

West Sussex Primary Care Trust

Audit 2008-2009

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 an unqualified opinion on the 2008/09 financial statements on 12 June 2009 and an unqualified regularity opinion.
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Financial Statements

- 2 The financial statements submitted for audit were of an adequate standard and supported by reasonable quality working papers. We identified no material errors in the PCT's accounts, but did identify a number of non-trivial adjustments and uncertainties as part of our audit work. We also identified material misclassifications in two of the notes to the accounts.
 - 3 The PCT is required to adopt the International Financial Reporting Standards (IFRS) for its accounts in 2009/10. This also requires the re-statement of the 2008/09 accounts under IFRS criteria to provide comparative figures for these statements. The PCT's arrangements to do this contained a number of weaknesses and improvement is required to ensure compliance with IFRS for the 2009/10 financial statements.
 - 4 The internal financial control environment supporting the production of the financial statements is adequate overall, but we have identified a number of areas where there are weaknesses in the design and/or operation of controls within the PCT's material financial systems. Detailed recommendations for improvement were issued and agreed as part of my 2008/09 Annual Governance Report.
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Use of resources

- 5 I have assessed how well the PCT is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. My assessment considered how well the PCT performs across three areas:
 - managing finances;
 - governing the business; and
 - managing resources
 - 6 The PCT is performing well in managing its finances. Arrangements to govern the PCT's business and manage resources are adequate. Full details of my judgements are set out at paragraphs 22 to 27 and Appendix 1.
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- 7 I issued an unqualified conclusion on your arrangements for securing economy, efficiency and effectiveness in the use of resources at the PCT.

Community Provider Services

- 8 The PCT has made good progress in the separation of its commissioning and provider services since it took the decision to do this. It has entered into a management contract with South Downs Health NHS Trust which will be monitored to ensure it delivers the PCT's objectives. The PCT recognises that further work needs to be carried out to improve management and commissioning skills and to develop further analysis of income and financial performance.

Table 1 Audit fees

	As per agreed Audit Plan	Actual	Variance
Financial statements	£201,750	£201,750	-
Use of resources (including the value for money conclusion)	£102,000	£102,000	-
Total audit fees	£303,750	£303,750	-
Payment by Results	£33,000	£33,000	-
International Financial Reporting Standard restatement work - phase		£12,000	£12,000
Total non-audit work	£33,000	£45,000	£12,000
Total	£336,750	£348,750	£12,000

- 9 An additional fee was charged to cover our work in auditing the PCT's arrangements for the re-statement of the opening financial position at 1 April 2008 under the requirements of the International Financial Reporting Standards.

Independence

- 10 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 PCT's financial statements and its 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

- 11** The financial statements submitted for audit were of an adequate standard and supported by reasonable quality working papers. We did not identify any material errors in the PCT's accounts, but did identify a number of non-trivial adjustments and uncertainties as part of our audit work. We also identified material misclassifications in two of the notes to the accounts. Detailed recommendations were issued and agreed as part of my 2008/09 Annual Governance Report and are not repeated as part of this report. Key areas for improvement are summarised over the following paragraphs 11 to 14.
- 12** Asset records and capital accounting arrangements require further improvement. Data on PCT fixed assets was transferred to a new asset management system during the year. This will assist the PCT in successfully implementing the requirements of International Financial Reporting Standards (IFRS). We did, however, identify discrepancies between financial data for fixed assets on the new asset register system and the general ledger. Specifically, the Revaluation Reserve balance in the asset register is allocated on an asset by asset basis pro-rata to the balance sheet value of assets. This approach is reasonable where no better information is available, but if more accurate information is available it should be taken into account. We also identified a need to reconcile the fixed asset register to the general ledger more regularly, consistently classify additions on the asset register and general ledger and better support the accuracy of historic cost data used to populate the asset management system.
- 13** As part of our work on the financial statements we identified approximately £345,000 of expenditure classed as fixed asset additions that appeared to be revenue in nature. We also noted difficulties in establishing the existence, location and responsible officers for IT equipment of a value of approximately £2.7 million and continued delays in registering title for all PCT properties with the Land Registry.
- 14** There was some deterioration in the internal control environment relating to the Sussex Acute Commissioning Service (SACS) hosted by the PCT, although it remained adequate overall. Specifically:
 - the agreement of quarterly performance figures under the Payments by Results framework during the period fell substantially behind the agreed 'flex and freeze' timetable;
 - changes in SACs staffing during the period made it more difficult to fully support interim payments made; and

- written agreements of the year end financial position between the PCT and provider bodies were not always sufficiently detailed or evidence based to fully support the agreed position.
- 15** Given the proportion of the PCT's total turnover which relates to SACS, and the reputational risk to PCT of loss or error occurring in this area, there is a need to ensure sound internal control within SACS. This is recognised by management and recommendations for improvement have been agreed as part of our Annual Governance Report.

Material weaknesses in internal control

- 16** Although I concluded that the internal financial control environment is adequate overall, our work on the PCT's material financial systems identified a number of areas where we have found weaknesses in the design or operation of controls. This limited the extent to which we have been able to rely on the operation of controls to gain assurance for the opinion on the financial statements. Detailed recommendations for improvement were issued and agreed as part of my 2008/09 Annual Governance Report.

Implementation of International Financial Reporting Standards

- 17** The PCT is required to adopt the International Financial Reporting Standards (IFRS) for its accounts in 2009/10. This also requires the re-statement of the 2008/09 accounts under IFRS criteria to provide comparative figures for these statements.
- 18** I completed stage one and two of the IFRS restatement exercise within the agreed timescale. The first stage of this work comprised an assurance engagement which falls outside the normal audit process and is the subject of agreed procedures made under section 28 of the Audit Commission Act. It did not represent an 'audit' of the restated figures. The next stage was a precursory requirement to the audit of the 2009/10 accounts under IFRS and therefore falls under the terms of the audit engagement. We issued an unqualified opinion on the re-stated accounts on 16 September 2009.
- 19** The PCT's arrangements contained a number of weaknesses. Working papers to support the re-statement lacked detail and adjustments required to re-classify balances under the IFRS requirements needed to be amended. Changes required to accounting policies were not fully considered and documented at the start of the process.
- 20** Information needed to enable a full consideration of significant leases was not complete at the start of our review. There were some problems obtaining details to confirm that these had been fully evaluated, although we were satisfied that there was no material mis-statement.

Financial statements and statement on internal control

- 21** The PCT has not yet fully considered the classification of property between specialised and non specialised assets or considered the bases of valuation applicable. It should not necessarily be assumed that all hospitals are entirely specialised assets. International Accounting Standard 16 (IAS16) requires components of assets that have significant cost relative to the total cost of the asset to be depreciated separately. The PCT's asset register, or other Estates records, do not currently include this detail for all its properties as not all the inherited asset registers from the predecessor PCTs contained the breakdown required. We understand that a full revaluation using the modern equivalent asset basis, which will identify and value the significant component of assets, will be undertaken in 2009/10.

Recommendation

- R1** Improve arrangements to ensure proper adoption and compliance with International Financial Reporting Standards (IFRS) in the 2009/10 financial statements. Specifically:
- Review accounting policies to ensure they comply fully with the requirements of IFRS as they relate to the PCT's local circumstances.
 - Undertake an exercise to properly classify assets as specialised or non-specialised and ensure they are valued appropriately.
 - Improve the quality and level of detail of data on the fixed asset register.

Use of resources

I considered how well the PCT 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

- 22** 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.
- 23** I have also taken into account, where appropriate, findings from previous value for money conclusion assessments (updating these for any changes or improvements) and any other relevant audit work.
- 24** The PCT's finalised use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

Table 2 Use of resources theme scores

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

25 The PCT **manages its finances** well:

- The Strategic Commissioning Plan and Operating Plan demonstrate good links between financial plans and key priorities. Budget processes show that resources are focussed on high priority areas, and this has resulted in a number of improved outcomes.
- Financial targets for the year were met. Finance reports to the Board include current and forecast information and the reports are acted upon. A Cost Improvement Programme (CIP) is in place and monitored regularly through the year.

Use of resources

- There is a good understanding of costs and performance. The development of a reference cost model for provider services has enabled an understanding of how costs relate to services and has identified areas for efficiency.
- Investment through partnerships and work with main providers has produced a more efficient use of resources.
- The financial statements and working papers were of an adequate standard overall, but there is clear scope for improvement. IFRS restatement was completed on time, but associated working papers and other arrangements were relatively weak.
- Although current financial planning arrangements have resulted in improved outcomes there remains scope to improve the linkages between financial, risk and performance monitoring to better support strategic decision making and track progress against strategic priorities.

26 The PCT **governs its business** adequately:

- There is an established data quality framework and data checking procedures are documented. There is a review programme to ensure key data is accurate, but there are known weaknesses in the quality of data in some areas. Data quality training is provided and there is an up to date data security policy. There are, however, no specific mechanisms to check compliance with data policies and procedures.
- There is good quality monthly performance data for performance monitoring, which is reviewed by the Board. The Board receives monthly performance reports and data on the implementation of major projects and outcomes. Action is taken to address under-performance.
- Good governance is valued and promoted but there is a need to further develop governance structures to give more clarity on accountability and actions. This issue was considered further as part the detailed review of governance arrangements that we undertook during the year, and a detailed way forward has been agreed. See paragraphs 42 to 45.
- Each partnership in which the PCT is involved has a formally documented governance agreement and processes, but governance of significant pooled budgets is weak in practice. This issue was considered further as part of the review of Health Act flexibilities that we undertook during the year. See paragraphs 35 to 38. A detailed action plan was agreed with officers as part of this work.
- There is a regularly reviewed board assurance framework supported by a risk register. Risks are linked to strategic priorities and consider partnerships. However, mitigating actions and target dates are sometimes vague.
- Internal control is adequate, but there are a number of weaknesses in financial controls. Internal Audit is effective, and there is an audit committee that provides an adequate level of scrutiny and challenge to management. There is, however, scope to continue to improve the quality of financial, performance and risk management information reported to the Audit and Assurance Committee to further strengthen its role in this area.

27 The PCT **manages its workforce resource** adequately:

- Good progress has been made in developing the workforce to support the achievement of the PCT's strategic priorities. The workforce has been reviewed and changing workforce patterns and skills considered, for example through the introduction of virtual wards.
- There is an understanding of medium to longer term workforce requirements which are integrated with service planning.
- Future plans consider critical future workforce issues such as workforce profiling, succession planning and the identification of skills shortages. Joint workforce planning is starting to deliver benefits in some areas and attract staff through education and apprenticeships.
- There is a commitment to actively involve and support staff during organisational change. This has focused on the separation of provider arm services with clear processes for consultation and feedback.
- Staff satisfaction rates are below average but showing evidence of improvement. A draft engagement strategy for staff is being developed.
- There are policies to support diversity and good people management, although the level of diversity training provided is below average compared to other PCTs.

Recommendation

R2 Improve the links between financial, risk and performance monitoring to better support strategic decision making and track progress against strategic priorities.

VFM Conclusion**28** We have undertaken specific risk based work in the following areas:

- community provider services (two reviews);
- Health Act flexibilities;
- governance;
- health inequalities; and
- information management follow up.

29 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 Appendix 1.

30 I issued an unqualified conclusion stating that the PCT had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Specific risk based use of resources work

Community Provider Services

- 31** Recent legislative and policy changes have changed the way in which community health services are delivered. The Department of Health is providing support to PCTs looking to separate commissioning from their provider services. The West Sussex PCT Board agreed to the development of an arms length organisation for its provider services prior to an options appraisal process to determine its future organisational form. The provider arm was named West Sussex Health (WSH), and it developed directorate management structures, financial and performance management arrangements, and relationships with PCT commissioners.
- 32** Our review covered key areas of the PCT's arrangements for the changes, specifically:
- the strategic approach to the service;
 - finance and governance;
 - skills and information; and
 - value for money and health improvement.
- 33** The first phase of our review concluded that the PCT had made good progress in the separation of its commissioning and provider services since it took the decision to do this in July 2007. It recognised that there was more work to do and had a clear action plan to address this.
- 34** We found that the PCT had a strong strategic vision for the development of the community provider service. There was a robust decision making process, taking into account the views of stakeholders, which included sufficient challenge to the various options under consideration. This included an element of competition and a review of costs and risks using a formal methodology to demonstrate contestability.
- 35** In March 2009, after a detailed process, the Board evaluation panel decided to enter into a management contract with South Downs Health NHS Trust (SDHT) which would enable the benefits of separation without the delay of implementing a formal merger. The management contract with SDHT sets out how the arrangement will deliver the PCT's objectives.
- 36** As part of the second phase of our work we identified some weaknesses in the PCT's financial arrangements for its community provider service in relation to apportioning income to activities accurately. Although some progress had been made from our initial review the PCT remains unable to fully assess the financial performance of its provider services. Information that is available on net cost, activity and quality is weak and does not enable commissioners to determine whether the provider arm is providing value for money. Work has taken place to develop the information required to move from a block contract with SDHT to one of cost and volume. The quality of provider activity data is, however, compromised by the fact that the PCT does not have an overarching patient administration system for its patient activity or its own database, and relies on other organisations for this information.

37 We concluded that the PCT needs to develop the necessary skills to manage the business and commissioning arrangements to improve community care provision. It is, however, developing the processes to improve its management of the business and commissioning arrangements arising from the separation of the provider services. It is also effectively managing the engagement aspects of workforce management as the separation of the provider service progresses.

Health Act Flexibilities

38 This review covered the arrangements governing the PCT's Mental Health (MH) Services which are the subject of a pooled budget agreement, under Section 75 of the Health Act 2006, with West Sussex County Council.

39 We concluded that the pooled budget arrangements for mental health services are underpinned by a clear strategic vision which emphasises the importance of partnership working. The West Sussex vision for mental health focuses on the needs of individuals and signals a move from secondary to primary or community care.

40 There are high level decision making powers and meeting structures in place to support the Partnership Agreement. However, at a local level the Strategic Commissioning Board for MH has not operated effectively. Its agenda has not been clearly focused on key governance functions such as performance, financial and risk management. There was no clear procedure for agreeing and authorising in year variations in funding. Explanations for budget variations are not required to be reported to the Joint Commissioning Board. The PCT has introduced a new system of authorised variation forms for 2009/10 which documents all the variations agreed between officers. However, further work needs to be undertaken to ensure that this system is consistent with the standing financial instructions of both the PCT and the County Council.

41 Data quality arrangements, reporting and performance monitoring are being developed. Some of the detailed information requirements are simple reporting requirements rather than performance measures, and therefore do not have targets assigned to them. While most targets have been set but others remain to be agreed for some areas outside of West Sussex. The PCT also needs to work with its main supplier, Sussex Partnership NHS Foundation Trust, to develop measures of outcomes.

Governance Review

42 Recent years have seen increasing interest in the effectiveness of governance across all sectors, prompted not only by high profile banking and business failures but also in the public sector by concerns about integrity, independence, accountability and recognition of the growing complexity of effective public service provision. As the PCT's role moves to solely commissioning, it has appreciated the need to start reconfiguring its governance arrangements. Our review, together with other work commissioned by the PCT from Humana/Capsticks, examined possible future governance structures and gives an opinion on their legality.

Use of resources

43 The work undertaken comprised:

- a review of committee membership, terms of reference and delegated responsibilities;
- mapping these to function (both perceived and actual);
- reviewing performance and risk management processes and their integration in governance processes; and
- attending and observing Board and committee meetings.

44 We found that the current Board and Committee structure is overly complex and does not provide clear, transparent and consistent governance arrangements. The PCT's governance structure does not help the Board to operate strategically and be assured, through its committees, that risk is well managed with appropriate controls in place.

45 As the PCT's role changes to that solely of a commissioner, its governance arrangements will need to change and this may provide an opportunity to simplify the current arrangements.

Health Inequalities

46 We have reviewed the action being taken to address health inequalities throughout West Sussex in two phases. Phase one was in early 2008, and we are concluding phase two now. The work involves the PCT, West Sussex County Council, Sussex Police, Sussex Partnership NHS Foundation Trust, Western Sussex Hospitals NHS Trust and the district and borough councils. Phase one found that good progress had been made to reduce health inequalities and important building blocks had been established, including the development of a clear strategic direction. We agreed an action plan with the PCT to progress key issues arising from the review.

47 Phase two followed up on the progress made to deliver the action plan, and to answer the key question of 'how likely are partnership arrangements in West Sussex to reduce health inequalities across the local population?' We found that good progress has been made in most areas since phase one, particularly in relation to the development of partnership working and the establishment of countywide structures to support work to reduce health inequalities. However, a countywide health inequalities action framework, a recommendation from phase one, has not yet been developed. A lot of work is taking place across the county to address health inequalities, but it is not being pulled together into a coherent framework. We are agreeing an action plan and will continue to work with partners during 2009/10 to follow up progress.

Information Management

48 This review followed up work undertaken in 2008 to assess the PCT's information management arrangements and to review progress in implementing agreed improvements.

49 Good progress has been made to implement the majority agreed recommendations. However, further work is needed to complete the development of a formal documented information management strategy. There is also more work required to ensure timely and appropriate decisions are made about data warehousing systems to avoid duplicating functions and any potential waste of resources.

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.

The Payment by Results (PbR) Data Assurance Framework is designed to support:

- The improvement of data quality standards that underpin the accuracy of coding and payments under PbR; and
- Improvements in coding and associated arrangements.

Key Findings

- 50** This review provides information on the adequacy of controls and identifies areas which may warrant further investigation. Review outputs are based on a sample of 300 records, selected according to risk, from areas where inconsistencies and other anomalies are considered more likely to occur. Review outputs should not therefore be extrapolated to identify an overall error rate, or used as the basis for 'recovery' for overcharging or undercharging of work.
- 51** The PCT is a significant user of services from a number of foundation and NHS trusts. A summary of results is show in Table 2.

Table 3 Main findings and previous year comparators

Year	2008/09	2008/09	2007/08	2007/08
Overall results for Trusts	% of episodes changing HRG*	Net % difference between pre and post audit pricing	% of episodes changing HRG*	Net % difference between pre and post audit pricing
Queen Victoria Hospital NHS Foundation Trust	1	0.7	7	-1.9
Royal West Sussex NHS Trust	6	2.3	1	0.13
Worthing and Southlands NHS Trust	11	-1.0	39	-16

* The Healthcare Resource Group (HRG) is determined from the recorded diagnoses and procedures of a patient's treatment and establishes the tariff category applied and price paid by the PCT for the treatment under the Payment by Results framework

- 52** The areas selected for sample testing this year are different to those audited last year and therefore cannot be considered an absolute measure of the improvement/deterioration in coding accuracy. The areas tested also differ between trusts.
- 53** The average HRG change in 2007/08 was 9.4%. The results for Worthing and Southlands NHS Trust, whilst showing an improved position is still below average, although not in the 25% worst performing trusts.
- 54** Compared with the national results from last year's audits, Royal West Sussex NHS Trust has fewer errors than the average (9.4%), although it is not in the best performing 25% of Trusts.
- 55** Queen Victoria NHS Foundation Trust the Trust is in the best performing 25% of trusts where the lowest percentage reflects the smallest amount of Healthcare Resource Groups (HRGs) that are incorrect.

- 56** The PCT should, as a significant commissioner from the trusts, discuss the recommendations arising with the relevant trusts and agree what actions will be taken in response to issues identified. The new standard contract requires commissioners and providers to follow up the results of the Data Assurance Framework. Following the merger of Royal West Sussex NHS Trust and Worthing and Southlands Hospitals NHS Trust to form Western Hospitals NHS Trust, the PCT should ensure arrangements are in place to implement recommendations raised by the reviews.

Closing remarks

- 57** I have discussed and agreed this letter with the Chief Executive and the Director of Finance on 5th October 2009. I will present this letter at the PCT Board on 26 November 2009.
- 58** 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.

Table 4

Report	Date issued
Audit Plan	March 2008
Community Provider Services - Phase 1	January 2009
Payment by Results Data Assurance - Royal West Sussex NHS Trust	March 2009
Payment by Results Data Assurance - Worthing and Southlands Hospitals NHS Trust	March 2009
Governance Review	May 2009
International Financial Reporting Standards - Phase 1	May 2009
Payment by Results Data Assurance - Queen Victoria Hospital NHS Foundation Trust	May 2009
Health Act Flexibilities	June 2009
Annual Governance Report	June 2009
Information Management - Follow up	October 2009
Community Provider Services - Phase 2	October 2009
Health Inequalities	November 2009 (planned)

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- 59** The PCT 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.

Helen Thompson
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: 3	
KLOE 1.1 (financial planning)	3
Score	Yes
VFM criterion met	
KLOE 1.1 Key findings and conclusions	
<p>The PCT's financial planning is integrated with strategic and corporate planning. The Strategic Commissioning Plan and Operating Plan, which have a 5 year horizon, demonstrate good links between the financial plans and the PCT's key priorities. Budget setting processes are aligned with the commissioning of new or improved services which are in line with national targets and / or local priorities. There is a robust bidding process for revenue funding giving assurance that resources are being shifted from areas of low priority to areas of high priority. The Capital Plan is updated on an ongoing basis to reflect changes in priorities, minimise future revenue costs and improve services. Demand management plans are used to inform the budget setting process. The use of demand management information to inform financial plans identified the need to re-tender the PCT's out of hours service. This has resulted in a more integrated service being provided and has reduced primary care budgets by approximately £1.5 million per annum. Although current financial planning arrangements have resulted in demonstrable good outcomes, there is scope to continue to further integrate financial planning and monitoring with performance and risk management across the whole organisation.</p>	

Appendix 1 – Use of resources key findings and conclusions

The PCT has undertaken a range of consultation with local people on its major proposals including Fit for the Future, Options for Change (the development of a separate provider arm) and an extensive review of services provided in the north east area of the county. This has included a series of public meetings across the county. Engagement with GP fundholders as part of the development of practice based commissioning is also well developed. There are many examples of the results of public consultation being considered in financial planning including increased funding of ambulance services and the use of capital investment to shift services so they are delivered closer to where service users live. The impact of services on diverse communities and hard to reach groups is also considered as part of the budget prioritisation process.

The PCT achieved its forecast outturn for 2008/09. It had a carefully monitored cost improvement plan (CIP). Although CIP efficiencies were slightly behind target in 2008/09 this was offset by lower than planned investment in some areas. The PCT also monitors cash flow and particular care is taken at year end to ensure cash limits are adhered to. Financial plans show a stable financial position over the medium term.

The PCT demonstrates an adequate understanding of financial issues at Board level. There are examples of Board intervention resulting in the mitigation of financial risks. Programme leads are involved in financial planning and the PCT provides financial training across a number of departments. The Audit and Assurance Committee provides adequate scrutiny and challenge to management on financial matters. During 2007/08 the Committee challenged the amount of money spent by the PCT on external consultants. This led to improved processes for the procurement of contractors in 2008/09. There is some scope to continue to improve the quality of financial, performance and risk management information reported to the Audit and Assurance Committee to further strengthen its role in this area.

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>KLOE 1.2 Key Findings and Conclusions</p> <p>The PCT has a good understanding of its costs and performance and has undertaken a number of pieces of work over the last year to help it improve its understanding and achieve efficiencies in its activities. The development of a reference cost model for its provider services has enabled the PCT to understand how its costs relate to the services that generate them, how they compare to the national average and identify areas for efficiency. This work in conjunction with productivity reviews undertaken, has enabled the PCT to achieve savings in excess of £5 million. The PCT can also demonstrate how investment through partnerships has produced a more efficient use of resources through lower costs and/or better outputs and outcomes. A joint tendering exercise with West Sussex County Council for drug action teams has resulted in an improved, lower cost service that is more consistently delivered across the whole county area. The National Treatment Agency has noted the comprehensive work involved in this re-tendering exercise and has observed this as a well run process. The PCT uses external benchmarking to challenge the performance of its provider organisations and is able to point to specific examples where external benchmarking has been used to better understand and improve current levels of cost and service performance.</p> <p>The costs and benefits of planned changes and improvements to services are clearly set out in rigorous business cases. There is clear guidance and a template for producing business cases which must include the costs and benefits of the service. This approach helps ensure the PCT fully understands the costs of new services. All new investments are subject to an investment appraisal process. The Programme Management Office receives and evaluates the growth bids and 'invest to save' bids prepared by programme managers against agreed priorities which consider costs and performance factors. Work has also been undertaken with main acute trust providers to improve their financial and service planning processes and secure efficiencies. Contracts with provider trusts now include specific clauses that require the provider to deliver outpatient follow up ratios and A&E attendance to admission ratios. As a consequence of this 2008/09 contract payments to trusts have been reduced where ratios have exceeded.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>KLOE 1.3 Key findings and conclusions</p> <p>The PCT produces timely monitoring for budget holders on a monthly basis. Reports are made available to budget holders in an electronic format and all information is accruals based. Finance reports to the Board include performance against the budget to date and forecast the expected outturn. Additional bespoke information relating to the commissioning spend is also provided which demonstrates a good level of monitoring and mitigation of financial risks. Detailed information on risk areas and sensitivity analysis was provided for part of the year. The commentary in Board finance reports is relevant and in line with information provided to the Strategic Health Authority, although narrative could be fuller in some areas. There also remains scope to improve the linkages between financial, risk and performance monitoring more generally to better support strategic decision making and track progress against strategic priorities.</p> <p>The PCT has had a cost improvement programme in place during the year. This has been monitored monthly by the Programme Management Office and action is taken to address variances identified. The PCT controlled its spend during the year using a contingency reserve, and achieved its target outturn for 2008/09. This was carefully managed and in line with forecasts produced throughout the year.</p> <p>The PCT's 2008/09 financial statements submitted for audit were free from material error and we were able to give unqualified true and fair view and regularity opinions. There were, however, a relatively large number of non-trivial errors and uncertainties in the draft statements and there remains clear scope for improvement in this area. Adequate working papers were provided to support the financial statements and the PCT responded to queries raised.</p> <p>The PCT has provided information relating to the International Financial Reporting Standards (IFRS) restatement on time as required by the Department of Health. However, working papers and some other arrangements were relatively weak. Some additional work was undertaken to update accounting policies and provide more information. Weaknesses were also noted in the exercise to restate the audited 2008/09 accounts to an IFRS compliant basis. Working papers to support the re-statement lacked detail and adjustments required to re-classify balances under the IFRS requirements needed to be amended.</p>	

Appendix 1 – Use of resources key findings and conclusions

The most recent published annual report and annual audit letter are available to the public and appear on the PCT's website on a timely basis and in accessible formats. However we have no evidence that the PCT has considered the views of stakeholders when considering what information to provide.

Appendix 1 – Use of resources key findings and conclusions

Governing the business

<p>Theme score: 2</p>	
<p>KLOE 2.1 (commissioning and procurement)</p>	
<p>Score</p>	<p>Not applicable</p>
<p>VFM criterion met</p>	<p>Yes</p>
<p>KLOE 2.1 Key findings and conclusions</p> <p>The PCT was assessed under the World Class Commissioning system of assurance in 2008/09. The Audit Commission agreed with the Department of Health that the use of resources assessment would not make a scored use of resources judgement on KLOE 2.1 at PCTs for 2008/09 in order not to duplicate work recently carried out for the World Class Commissioning assessment. The World Class Commissioning assurance system is designed to measure the success of commissioners and ensure health outcomes are improving and reflect the health aspirations of local populations.</p> <p>While not scoring KLOE 2.1 we still have a statutory duty to consider this area when reporting on whether the PCT has proper arrangements for achieving value for money in its use of resources - our value for money conclusion. Evidence to support this aspect of the value for money conclusion is primarily drawn from the scores for six of the detailed World Class Commissioning competencies. Based on this we concluded that the PCT does have proper commissioning and procurement arrangements for achieving value for money in its use of resources.</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>KLOE 2.2 Key findings and conclusions</p> <p>The key processes and data checking procedures are documented. There is a review programme to ensure key data is accurate. The PCT has a range of processes in place to ensure that its published information, including performance indicators, is sound. There is good quality monthly performance data for performance monitoring, which goes to the Board for review and scrutiny. All staff involved in data collection, data entry and management are trained and last year reviews showed high levels of accuracy and adherence to policies.</p> <p>Data supporting the PCT's decision making process is generally fit for purpose. Decision making is supported by a variety of information, not just performance data and there is active consultation with decision makers to present information in a way that aids interpretation. Tailored information is produced to support key change programmes and investment proposals. There are, however, recognised problems with data quality that will impede the prioritisation of funding bids for 2010/11. Improvements are needed to enhance the prioritisation process, which would in turn lead to more effective use of financial resources. There are arrangements in place to manage information risk and a Senior Risk Information Officer has been appointed. There is also an up to date data security policy covering key business areas, data recording and reporting arrangements, and compliance with statutory and national data security requirements. Good practice on data and information security has been incorporated into key policies. There are no specific mechanisms to check the application of, and compliance with, data policies and procedures, although a working group has now been established to ensure that managers put policy into practice. The number and severity of serious issues has not been reduced, but there is evidence of learning being shared throughout the organisation on serious issues.</p> <p>The Board receives monthly performance reports with a performance exception update. There is evidence of action being taken to address areas of under-performance. There is also that the Board actively uses data to monitor and manage the implementation of major projects to ensure they are on track and deliver expected outcomes. Management information is used to monitor PCT and practice based commissioner performance against strategic business objectives set out in partnership agreements.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>KLOE 2.3 Key findings and conclusions</p> <p>The PCT can demonstrate adoption and promotion of the principles of good governance and publishes a document clearly describing individual roles and responsibilities. The current Board and committee structure is, however, overly complex and this prevents clear and consistent decision taking. There is a continued need to ensure development of governance structures to minimise duplication so that there is clarity on accountability and actions. There are constructive working relationships between Non-Executive Directors (NEDs) and the management team. There are also examples of positive challenge between NEDs and executives. NEDs and senior officers are actively equipped to discharge their responsibilities through the use of performance development plans and a Board training programme. The level of NED take-up of training is, however, not high.</p> <p>The PCT has a 3 year service level agreement in place for provider services from April 2008 to March 2011, reflecting the separation of the provider services from the PCT. There are monthly performance meetings where key performance indicators are reviewed and progress towards annual targets monitored.</p> <p>The PCT's leadership has a clear vision of what needs to be achieved for its local communities. Strategic goals are aligned with one or more outcome measure and with delivery plans which set out what actions need to be taken for the goal to be achieved.</p> <p>Strategic objectives and goals identify local population health needs with expected health outcomes; however, there is a need to further align governance processes and systems around the delivery of ambitions to drive change in the local economy.</p> <p>The PCT has adopted the NHS Code of Conduct and maintains registers of interests and gifts and hospitality. All members of the Board, including non- executive directors, and members of the Professional Executive Committee make declarations of interests which are updated regularly. Staff are reminded of the need to make declarations via staff bulletins, but declarations of interests are not required from non-Board members.</p>	

<p>KLOE 2.3 Key findings and conclusions (cont)</p>	<p>There is a complaints procedure which is well publicised and there is evidence that complaints received are reported and that appropriate action is taken. There also is a whistleblowing policy and a policy on the reporting of untoward incidents which are easily accessed on the PCT's website. There are Equality and Diversity policies in place and the PCT has considered ethical behaviour as part of its vision and values. However there is limited evidence of work to proactively promote ethical standards.</p> <p>Significant partnerships have a formally documented governance process although aspects of the governance of significant pooled budgets is weak in practice.</p>	<p>2 Yes</p>
<p>KLOE 2.4 (risk management and internal control)</p> <p>Score VFM criterion met</p>	<p>KLOE 2.4 Key findings and conclusions</p> <p>There is a Board Assurance Framework which is reviewed quarterly by the Board and supported by a risk register. The risks identified are linked to strategic objectives and responsibility is assigned to named individuals, although mitigating actions and target dates are sometimes vague. The PCT's risk management arrangements cover risks related to significant partnerships. The risk register includes, for example, risks related to the pooled budget arrangements, although the governance and internal control of pooled budgets is not strong in general. Board directors recognise their collective responsibility for risk management and a summary of the highest-rated corporate risks is reported to the Board on a regular basis. There is evidence that some Board members have received risk management training, but this has not been comprehensive.</p> <p>There is a Counter Fraud Policy and Response Plan which is available on the PCT's website. It has an accredited Local Counter Fraud Specialist (LCFS) who undertakes a pro-active programme of counter fraud and corruption work. Arrangements are well publicised at PCT offices. There is evidence of action being taken to actively pursue cases where fraud is suspected. Resources are allocated to the LCFS function are appropriate. National Fraud Initiative (NFI) follow-up arrangements are adequate.</p>	

Appendix 1 – Use of resources key findings and conclusions

Internal control is adequate overall, although control testing as part of work to give the 08/09 financial statements opinion highlighted a number of weaknesses in financial controls. This is particularly true for internal controls relating to the PCT's assets noting that this is not a major part of the overall business. The PCT is properly constituted with standing orders, standing financial instructions and a scheme of delegation in place. Internal Audit is effective in undertaking a risk based programme of work in accordance with relevant requirements. The Audit and Assurance Committee undertakes the core functions of an audit committee and provides an adequate level of scrutiny and challenge to management, but there is clear scope to continue to improve the quality of financial, performance and risk management information reported to the Committee to further strengthen its role and function.

The 2008/09 Statement of Internal Control provided a good self-assessment of performance across all activities. There is a business continuity plan in place and there is evidence that this has been further considered and developed during the year.

Managing resources

Theme score: 2	
KLOE 3.1 (natural resources) This KLOE does not apply to PCTs in 2008/09.	
KLOE 3.2 (strategic asset management) Score VFM criterion met	not assessed Yes
KLOE 3.2 Key findings and conclusions KLOE 3.2 was not assessed at West Sussex PCT in 2008/09 as the PCT's asset base is less than 10% of its gross revenue expenditure and is not therefore considered to be significant to its overall operations.	
KLOE 3.3 (workforce planning) Score VFM criterion met	2 Yes
KLOE 3.3 Key findings and conclusions The PCT's workforce is being developed effectively to support the achievement of strategic priorities and there is a good level of investment in people and skills. A draft Talent Management Strategy has also been produced to aid with succession planning. The PCT regularly reviews the productivity of its workforce. There has been recent work to reconfigure staffing and there is some evidence of this leading to improvement in workforce productivity. Other new developments, such as virtual wards, have changed workforce patterns and skills in order to increase impact.	

Appendix 1 – Use of resources key findings and conclusions

The Strategic Workforce Group has been developed to bring a co-ordinated county wide approach to workforce. Workforce patterns and skills are under review with evidence of changing patterns such as the North East Review developing joint posts with West Sussex County Council social care. Gaps in skills are identified with plans to address these and effective approaches to recruitment and education are being implemented.

The PCT is beginning to invest in the health, safety and well-being of its workforce through well-being initiatives. There are effective systems for monitoring and managing levels of sickness absence which have reduced significantly in the last year. However, systems to robustly monitor and manage staff accident reporting are still being developed.

There is an understanding of the medium to longer term staffing needs and requirements of the organisation. This includes an analysis of skills that will be needed in the future which are integrated with service planning processes. There is also a broad understanding of agency staffing levels, but the use of agency staff is not managed proactively.

Workforce plans are based on relevant information and consider critical future issues such as skill or occupational shortages, for example within Estates Services. There is a corporate approach to workforce planning which is clearly aligned with strategic planning. Joint workforce planning with other public sector bodies such as West Sussex County Council is starting to deliver benefits in some areas, and the strategic workforce group is working with partners to reduce unproductive competition and attract staff through education and apprenticeships.

The PCT has policies which support diversity and good people management however recent staff surveys demonstrate a lack of impact in this area with its staff. There is currently little information to demonstrate positive staff reporting of diversity practices and the availability of recent diversity training is below average compared to other PCTs.

The PCT's workforce is representative of the community it serves and workforce profiling, succession planning and work to identify skills shortages are all being undertaken. Action is also taken to address specific issues such as an ageing workforce population. However, there remains a need to stimulate the market to meet demand and secure health and well being outcomes particularly in relation to mental health and other non acute services. The PCT also needs to implement its plans to review all health care provision and fully understand the capacity of local providers.

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Audit Letter 2008/09 Recommendations					
7	R1 Improve arrangements to ensure proper adoption and compliance with International Financial Reporting Standards (IFRS) in the 2009/10 financial statements. Specifically: <ul style="list-style-type: none"> Accounting policies need to be re-considered to ensure they comply fully with the requirements of IFRS as they relate to the PCT's local circumstances. 	3	Alex Dallos Assistant Director - Financial Accounting	Agreed		Jan 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<ul style="list-style-type: none"> Undertake an exercise to properly classify assets as specialised or non-specialised and ensure they are valued appropriately. Continue to work to improve the quality and level of detail of data on the fixed asset register. 		“	Agreed		Mar 2010
			“	Agreed		Mar 2010
10	R2 Improve the linkages between financial, risk and performance monitoring to better support strategic decision making and track progress against strategic priorities.	3	Barry Young Deputy Director of Finance	Agreed	Part of Cohort 2 programme of work	Nov 2009

The Audit Commission

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