



HEALTHCARE

# Bolton Primary Care Trust

Annual Audit Letter 2009/10

14 October 2010

AUDIT

# Introduction

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## Background

This Annual Audit Letter ('the letter') summarises the key issues arising from our 2009/10 audit at Bolton Primary Care Trust ('the PCT'). Although this letter is addressed to the directors of the PCT, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at [oneplace.audit-commission.gov.uk](http://oneplace.audit-commission.gov.uk). It is the responsibility of the PCT to publish the letter on the PCT's website at [www.bolton.nhs.uk](http://www.bolton.nhs.uk). In the letter we highlight areas of good performance and also provide recommendations to help you improve performance. Our key recommendations are summarised in Appendix A. We have reported all the issues in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix B.

## Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the code) which requires us to report on:

### Use of Resources (UoR)

We conclude on the arrangements in place for securing economy, efficiency and effectiveness ('value for money') in your use of resources.

### Financial Statements including the Statement on Internal Control

We provide an opinion on your accounts.

## Fees

Our fee for 2009/10 was £161,165 excluding VAT (2008/09: £155,000). The 2009/10 fee includes £6,165 for additional audit work relating to the PCT's Corporate Costs savings programme. In addition we audit your charitable trust funds for a fee of £1,500 excluding VAT (2008/09: £2,000.)

This report is addressed to Bolton PCT ('the PCT') and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the Trust. We draw your attention to this document.

External auditors do not act as a substitute for the PCT's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, who is the engagement lead to the PCT, 0161 246 4774 or email [tim.cutler@kpmg.co.uk](mailto:tim.cutler@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Use of Resources

### Use of Resources assessment

- Our Use of Resources assessment of the PCT against the three themes resulted in the following scores (*scored from one to four, where four is the highest*):
  - Managing finances: 3
  - Governing the business: 3
  - Managing resources: 3
- The PCT has maintained its level 3 score for each of the themes. The PCT has been able to demonstrate that it has achieved its strategic objectives through the effective use of resources.
- The Managing Resources theme assessed natural resources for the first time. We scored the PCT at level 2 for this part of the assessment. We found that the PCT has made some good progress in the use of natural resources through the Environmental Working Group and by working in partnership with the Council and other voluntary organisations. We found that there have been many initiatives ongoing at an estates level however, processes are not yet sufficiently embedded to support a level 3 score.
- We provided high level feedback on the key issues as part of our Interim Report and ISA260 which were presented to the Audit Committee in April and June 2010. Although no formal recommendations have been made due to this being the final year of the UoR assessment, we have highlighted in Appendix 3 the action that needs to be taken to maintain the PCT's strong position.

### Specific risk based reviews

#### *Transforming Community Services (TCS)*

We considered the progress the PCT had made, at May 2010, in implementing the Department of Health (DH) TCS guidance on the options for the future provision of PCT-provided community services.

In summary we found that the PCT's approach to the options appraisal has been comprehensive and engaging despite the challenging timetable. Key areas of good practice include:

- Complying with national and SHA guidance in implementing the options evaluation process.
- Ensuring appropriate governance over the TCS process with all key decision-making and accountability at the appropriate level of the organisation.
- Carrying out a highly effective and comprehensive stakeholder engagement programme.

## Use of Resources (continued)

### Specific risk based reviews (continued)

Our review did highlight some key issues for the PCT to focus on over the next phase of the process to achieve its objectives and minimise any risk to the PCT. In particular we reported that the PCT needed to focus significant time and resource on developing a robust and realistic implementation plan which addresses the key integration “hotspots” such as:

- The phasing of the transition in terms of the plans for each service.
- Infrastructure and back-office requirements (HR, IT).
- The timing of the resulting efficiency programme.
- Determining contractual arrangements and income basis with commissioners.

Recent follow up work indicates that the PCT has taken steps to address the key risks identified in our report.

#### *Medium Term Funding Gap*

As part of our assessment we considered the PCT’s plans for closing the medium term funding gap. In summary we found that the PCT planned its finances effectively to deliver its strategic priorities and secure sound financial health. Areas of good practice include:

- Achieving financial balance for 2009/10, closing the £13.9m funding gap identified at the start of the year through both recurrent and non recurrent measures.
- Using its five year financial model to forecast and demonstrate different scenarios internally and through presentations to the Board.

The Financial Plan for 2010/11 identified an in year gap of £9.9m and a recurrent gap of £12.1m. The PCT has identified a number of workstreams within its Cost Improvement Programme (CIP) to ensure the PCT meets its statutory financial duties in 2010/11 and beyond. Key to achieving financial stability is successfully managing demand. Work is ongoing to engage GPs in managing demand and supporting medicines management which is another key plank in the PCT CIP. In addition work continues in relation to data quality to ensure that the PCT only pays for the activity that has been completed by providers.

### Our conclusion

- We issued an unqualified value for money conclusion for 2009/10. This means that we are satisfied that you have put into place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

<b>Financial Statements including the Statement on Internal Control</b>	<b>Annual accounts</b>	<ul style="list-style-type: none"> <li>• The only errors we identified were presentational and these were all adjusted by management.</li> <li>• There were no significant matters which we were required to report to those charged with governance.</li> <li>• This is the first year where the PCT's accounts are based on International Financial Reporting Standards (IFRS). The PCT met its key financial targets of underspend on both capital and revenue resource limit and break even on its provider activities.</li> <li>• A modern equivalent asset valuation (MEAV) was undertaken during the year in order for the PCT to restate its accounts under IFRS. A further revaluation was completed at 31 March 2010 to identify any further upwards revaluations or impairments. The MEAV led to upwards movements to the revaluation reserve of £1.7m and downwards movements of £3.6m. There has also been impairments of £2.5m charged to the operating cost statement during the year.</li> <li>• We identified 'Quality of Reporting' as a key risk in our Annual Audit Plan. The PCT's working papers to support the financial statements were of high quality and our prepared by client list had been followed. Working papers for primary and secondary healthcare accruals included detailed descriptions of the methodology used and third party evidence to support the accruals.</li> </ul>
	<b>Statement on Internal Control</b>	<ul style="list-style-type: none"> <li>• No significant adjustments were required to the Statement on Internal Control.</li> </ul>
	<b>Our conclusion</b>	<ul style="list-style-type: none"> <li>• We issued an unqualified opinion on your accounts on 10 June 2010. This means that we believe the accounts give a true and fair view of the financial affairs of the PCT and of the income and expenditure recorded during the year.</li> <li>• We confirmed that you have complied with your regularity requirements as in all material respects the expenditure and income have been applied to the purposes intended by Parliament.</li> <li>• We have also confirmed that you have complied with the Department of Health (DH) requirements in the preparation of your Statement on Internal Control.</li> </ul>
<b>Recommendations</b>	<b>High risk recommendations</b>	<ul style="list-style-type: none"> <li>• We have raised 3 high risk recommendations as a result of our 2009/10 audit work and interim report on Transforming Community Services. These are summarised in Appendix A, along with the PCT's response to the risks.</li> </ul>

# Headlines

<b>Public Interest Reporting</b>		<ul style="list-style-type: none"> <li>● We have considered our responsibilities in relation to public interest reporting. There are no matters in the public interest that we wish to raise at this time.</li> </ul>
<b>Fraud</b>		<ul style="list-style-type: none"> <li>● We have a responsibility to consider fraud and we addressed this in our assessment of your controls framework. We have also reviewed your arrangements for the prevention and detection of fraud and corruption, alongside our Use of Resources work.</li> <li>● This work is complete and has not identified any matters which we wish to draw to your attention.</li> </ul>
<b>High profile issues</b>	<b>Impact of White Paper</b>	<ul style="list-style-type: none"> <li>● The White Paper 'Equity and Excellence: Liberating the NHS' published on 12 July 2010 signals considerable change for the NHS and Bolton PCT</li> <li>● NHS Bolton Executive Team is currently developing an approach for taking forward the White Paper and subsequent guidance. Actions already taken include having a GP representative on the PCT management team and revamping the existing Professional Executive Team (PEC) structure and role.</li> <li>● We will be meeting regularly with representatives of the Executive Team to discuss how the PCT is managing the transition arrangements to the proposed new NHS structure.</li> </ul>
	<b>Economic Downturn and pressure on the public sector</b>	<ul style="list-style-type: none"> <li>● The PCT has begun work on reducing management costs in light of funding pressures and requirements from the SHA.</li> <li>● This is a matter that we will discuss with management as referred to above and we will consider the impact of costs upon the following:             <ul style="list-style-type: none"> <li>- resilience in medium term financial strategies;</li> <li>- delivery of efficiencies and future plans;</li> <li>- income streams;</li> <li>- patterns of demand and shifting priorities;</li> <li>- funding capital programmes;</li> <li>- development of shared services.</li> </ul> </li> </ul>

# Headlines

## High profile issues

### World Class Commissioning

- The PCT has received its World Class Commissioning report which includes 5 key recommendations. These are being addressed by the PCT and we will consider these for our 2010/11 audit planning.

### Pressures in Health Economies

- The PCT continues to work hard with its providers, notably Royal Bolton Hospital (RBH) and the SHA to deal with both financial and service pressures within the health economy.
- Good progress has been made with all bodies working together to ease these pressures and this is something we will continue to monitor.

### Provider / Commissioner Split

- The PCT has been considering the future options for its provider arm in accordance with the TCS programme and the recent White Paper. Following a full options appraisal which has evolved in accordance with national policy, the PCT has taken the decision to transfer most of NHS Bolton Provider Services, subject to negotiation, to an integrated provider for Bolton run by Royal Bolton Hospital NHS FT.
- A Heads of Agreement document has been prepared which outlines the intention to transfer, the overall approach to be taken and the milestones.
- The PCT is currently taking part in a due diligence exercise with RBH. This process will consider a number of key clinical, governance and financial issues and will ultimately lead to a recommendation about whether the proposed transaction should take place.

## Changes to next year's value for money work programme

- Given the scale of the pressures facing public bodies in the current economic climate, the Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
  - securing financial resilience; and
  - prioritising resources within tighter budgets.
- We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

## Future audit arrangements

- In August 2010 the Secretary of State for Communities and Local Government announced proposals to abolish the Audit Commission. The proposed abolition will be from 2012 and the government will seek legislation in this session of Parliament.
- There is no immediate change to the current audit arrangements. This includes the 2010/11 programme for the Payment by Results data assurance framework. This incorporates an audit of 2009/10 reference costs in all acute trusts that the Audit Commission announced on 9 July 2010.
- We will keep you informed about the future audit programme and any changes to audit arrangements.

# Appendix A: Key Recommendations

This appendix summarises high risk recommendations raised in 2009/10.

**Key:**  
 Low Risk ●  
 Medium Risk ●  
 High Risk ●

#	Risk	Issue, Impact and Recommendation	Management Response / Responsible Officer / Due Date
1	● High	<p><b>Transforming Community Services</b></p> <p>The PCT will need to focus significant time and resource on developing a robust and realistic implementation plan which addresses the key integration “hotspots”. For example, due diligence on the integration of the organisation with a partner and the integration of individual services will require an accurate account of the full costs of service lines.</p>	<p><b>Management Response</b></p> <p>Agreed and steps already taken to address this issue. These include:</p> <ul style="list-style-type: none"> <li>• There is a jointly developed implementation plan between the PCT and the Royal Bolton Hospitals NHSFT and project management structure is in place. This plan was presented to a joint Board to Board event in September 2010.</li> <li>• The implementation plan is overseen by a joint Executive Group , with access to senior Board members on an “as needs” basis. It is monitored on a weekly basis by the Executive Management Teams and monthly by the Boards of both organisations.</li> <li>• Risks in relation to the TCS process have been escalated where necessary to the Risk Assurance Framework through the Risk Management Committee.</li> <li>• A joint staff and stakeholder engagement plan “Better Care Together” is running alongside the implementation plan.</li> </ul> <p><b>Responsible Officer / Due Date</b></p> <p>Assistant Chief Executive / Ongoing</p>
2	● High	<p><b>Transforming Community Services</b></p> <p>The Board and SMT need to determine the specific content required for the business case submission to the SHA to ensure it will stand up to their challenge.</p>	<p><b>Management Response</b></p> <p>Agreed and steps already taken to address this issue. These include:</p> <ul style="list-style-type: none"> <li>• Full discussion of options appraisal process, evaluation criteria and proposed preferred solution at joint Board/PEC session on 19/5/2010 and documented. The Board approved proposals on 26/5/2010.</li> <li>• The PCT has carried out a further options appraisal for GP practices. At the SHA’s request, the PCT during this period have also carried out a specific options appraisals for Dental Services.</li> <li>• The PCT has continued to work with the SHA and maintained an ongoing dialogue over the last 3-4 months in finalising their proposals and as a result have provided assurance to the Board on the acceptability of its proposals to the SHA.</li> <li>• The PCT has met submission timetable for all SHA requirements including the submission of the Case for Change and Outline Business Case by 23/9/10. Feedback on the submission and a decision is expected from the SHA by 20th October 2010.</li> </ul> <p><b>Responsible Officer / Due Date</b></p> <p>Assistant Chief Executive / Ongoing</p>

# Appendix A: Key Recommendations

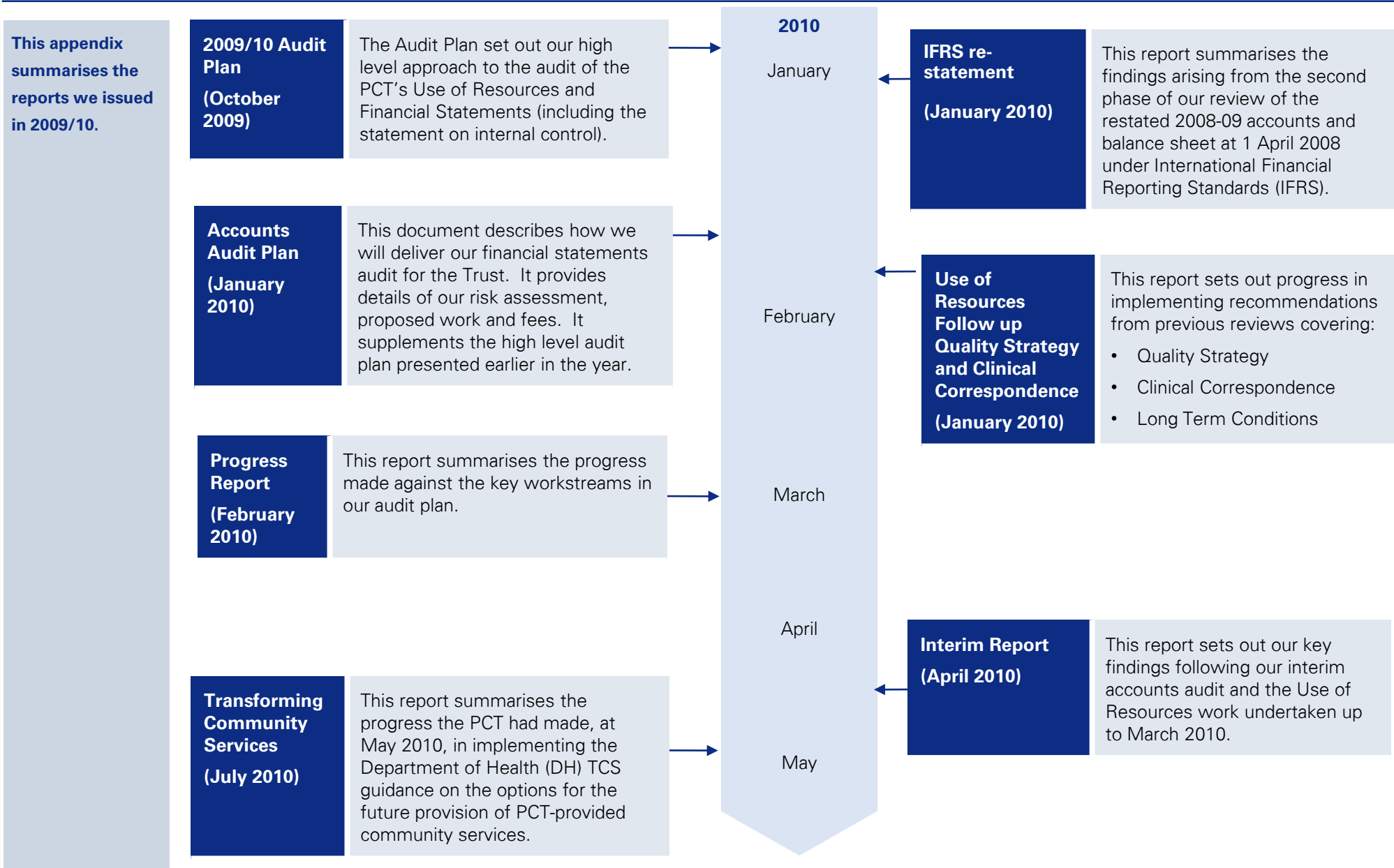
This appendix summarises high risk recommendations raised in 2009/10.

#	Risk	Issue, Impact and Recommendation	Management Response / Responsible Officer / Due Date
3	<p>● High</p>	<p><b>Transforming Community Services</b></p> <p>In order to meet the extremely challenging deadline for substantial progress on implementation by April 2011, we recommend that the PCT discuss its planned phased approach with the SHA in order to ensure this will meet their expectations.</p>	<p><b>Management Response</b></p> <p>Agreed and steps already taken to address this issue. These include:</p> <ul style="list-style-type: none"> <li>● The planned phased approach to integration with Local Authority has been agreed in principle with the SHA. Integration with the Local Authority will be dependent on final policy direction. Integration proposals would be at team and service level and would be led by GP Consortia.</li> <li>● The PCT has also committed to the market testing of directly managed GP practices by April 2011 in accordance with the SHA's requirements.</li> <li>● The PCT has engaged with the Competition and Co-operation Panel (CCP) to ensure that their approval procedure is consistent with the achievement of the April TCS deadline. The PCT understands that their proposals meet the criteria for CCP fast-track and this has been confirmed by the SHA.</li> <li>● Due Diligence is in progress and will be completed by end of November 2010.</li> <li>● The PCT has engaged with Monitor to ensure that the requirements for their review are built into the transition plan and accord with the TCS deadline.</li> <li>● The PCT are in the process of drafting transfer agreements.</li> </ul> <p><b>Responsible Officer / Due Date</b></p> <p>Assistant Chief Executive / Ongoing</p>

**Key:**

- Low Risk ●
- Medium Risk ●
- High Risk ●

## Appendix B: Summary of Reports issued



# Appendix B: Summary of Reports issued

This appendix summarises the reports we issued in 2009/10.

## Audit Highlights Memorandum (June 2010)

The Audit Highlights Memorandum provides details of the results of our audit for 2009/10 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory ISA260 declarations as part of this report.

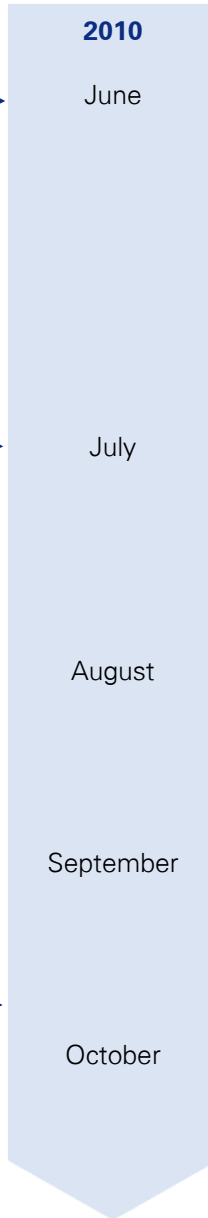
## Use of Resources Follow Up Report (June 2010)

This report sets out progress in implementing recommendations from previous reviews covering:

- Quality Strategy
- Clinical Correspondence

## Use of Resources Progress Report (October 2010)

This report summarises the progress made against the reviews within the use of resources programme.



## Annual Report (June 2010)

The Audit Report provides our audit opinion for the year, the Value for Money conclusion, and our Audit Certificate.

## Draft 2010/11 audit plan (June 2010)

The Audit Plan set out our high level approach to the audit of the Trust's Use of Resources and Financial Statements (including the statement on internal control).

## Annual Summary of recommendations (September 2010)

This report provides an update on progress made in implementing current and previous years' recommendations.

## Annual Audit Letter (October 2010)

This Annual Audit Letter provides a summary of the results of our audit for 2009/10.

## Appendix C: Use of Resources Comments

Given the expected changes to the approach for issuing our value for money conclusion in 2010/11 and the removal of the Use of Resources KLOE assessment, this section highlights two key areas from our 2009/10 assessment which will be relevant to our responsibilities for 2010/11 onwards.

The PCT has maintained its performance at level 3 for Use of Resources and seen improvements in a number of its World Class Commissioning scores. The comments here reflect where the PCT needs to build on developments in 2010/11.

### Managing Finances

- Looming budget cuts will hit the public sector hard and there is intense budget pressures facing the PCT for the foreseeable future. This is a very demanding and challenging environment and one which many across the organisation will not have experienced before. It is therefore important that everyone recognises their individual and collective responsibilities for financial management.
- The PCT has developed a long term savings plan and for 2010/11 the savings target is in excess of £13m, being a mix of recurrent and one off savings. The PCT has a good understanding of its costs but this work needs to be replicated across the breadth of the organisation so that the PCT is able to meet its CIP is able to achieve its recurrent target of £12.1m.
- The PCT should ensure that its medium term financial strategy is updated to reflect the implications of the White Paper. The Board and Management Team should continue to review and challenge the deliverability of the PCT's CIPs and demand management schemes and ensure that there is sufficient contingency to cover potential risks.

### Managing Resources

- The scale of the financial challenge, reductions in management costs and the transition to the proposed new NHS structure could result in the risk of a loss of focus on other key initiative such as equality and diversity and sustainability. These are areas where the PCT did not score at level 3 in the 2009/10 assessment but remain important Department of Health strategic commitments.
- The PCT has maintained its strong performance for productive and skilled workforce, workforce planning and organisational change. However the PCT demonstrates the characteristics of a level 2 organisation for equality and diversity. The PCT is focussing on this area and has appointed an Equality and Diversity Manager in year. It is important that there is awareness across the organisation of the need for compliance with equalities legislation and duties, and the benefits of having well established diversity practices.
- As GP consortia and new provider organisations emerge their immediate focus may be drawn away from the carbon and sustainability agenda. There is a benefit from embedding carbon management into PCT plans, procedures etc before the devolutions of both commissioning and service provision.