

TRUST BOARD MEETING 26TH JANUARY 2006

**ANNUAL AUDIT LETTER 2005 - TRUST RESPONSE**

1. Attached is the Annual Audit Letter for 2005 which has been agreed between Trust management and the Audit Commission. It has been considered by the Audit Committee who commend it to the Board for acceptance. Auditors from the Audit Commission will attend the Board Meeting to present the key points.
2. Members are aware of the Trust's serious financial position and the efforts which the Trust has been making to turn this situation around. The AAL draws attention to the significant shortfalls in the governance and management of the Trust which has resulted in changes to both during the second half of 2005. The Letter helpfully acknowledges recent progress but rightly points out that there is more work to be done. The Trust is keen to address any residual weaknesses.
3. It should be noted that some issues raised go beyond the Trust and relate to the wider West Herts quadrant.
4. The Letter contains a section on Action for Boards. Recommended actions include the need to :
  - a) ensure cultural change occurs throughout the Trust to integrate financial and organisational recovery;
  - b) carefully review and scrutinise the Trust's future operational business plans and performance management arrangements to ensure these are both realistic/achievable and link to financial objectives;
  - c) ensure governance and procedural weaknesses identified within the subcommittees are addressed and provide assurances on effective financial decision-making, objective scrutiny and challenge of executive directors on internal control/governance and that financial risks are integrated into risk management processes;
  - d) ensure decision-making and processes are amended and that there is sufficient clarification of the roles and responsibilities of all committees and that all staff are aware of new arrangements;
  - e) carefully assess whether the Trust are implementing robust changes to budget setting, financial management and financial planning which highlight the ongoing risks, options appraisals and associated actions being taken to address the financial position,

recovery plans and medium term planning linked to the Trust's objectives;

- f) ensure that the Trust is taking increased ownership on improving data quality arrangements in place to assess delivery of SLA's and exploring avenues to examine cost savings from benchmarking data and review of non-core activity; and
- g) ensure that the Trust puts in place appropriate arrangements to address information management and governance matters outlined in this letter.

#### 5. Taking each point in turn

- a) The Trust has been integrating its planning: The original Financial Recovery Plan was subsumed within the context of an Organisational Recovery Plan (OPR) which went to the Trust Board in August 2005, highlighting the need for cultural change. There is however more sustained work to be done to achieve such change.
- b) The Trust is reviewing its business planning arrangements for 2006/07 to ensure that plans are fit for purpose. In doing so it will ensure they are realistic, achievable and link to the financial strategy as set out in the Turnaround Plan. Performance Management arrangements in relation to the workstreams in the Turnaround Plan are being set up under a Turnaround Director, appointed in December 2005. Focused performance management meetings with the Divisions focused on achievement of key targets and supported with up to date management information were introduced in October 2005. These mechanisms need to be sustained, co-ordinated and enhanced
- c) Since June the Trust has been reviewing its management and governance arrangements. The Audit Committee are leading this work. At the same time the Chief Executive and Board Secretary are strengthening systems and processes to ensure that key messages from the sub-committees are followed up by management, such as the process of signing off management responses to audit reports. This will be integrated with the Assurance Framework and reported to the Board on a quarterly basis. Finally, the Risk Management Committee is co-ordinating the strategic risks, including financial risks, identified by other sub-committees are assessed and prioritised and acknowledged by the full Board.
- d) The review of governance arrangements on an annual basis is being led by the Audit Committee and will involve a review of terms of Reference to ensure there are no overlaps and underlaps. Once completed the result will be widely disseminated across the Trust at least once a year.

e) Budget-setting, financial management and financial planning are being integrated with other planning processes, notably the Business Plan and Turnaround Plan which are specifically intended to address the concerns highlighted in the AAL

f) The Trust have recognized the critical importance of data quality, particularly in the context of the roll out of Payment by Results. In the run up to Christmas, significant additional efforts were put into achieving improvements to the completeness and quality of clinical coding in particular. This must be sustained and improved upon. It is anticipated that from April 2006 all activity will be coded. Benchmarking is increasingly being used to assess cost effectiveness but more needs to be done

g) The Trust has set up an Information Governance Committee and this needs to be underpinned by a parallel arrangement to integrate management arrangements. It is intended that these will come under the newly appointed Chief Operating Officer. An easily accessible Dashboard management information system will be available for senior managers in February, replacing interim arrangements which have been in place since the autumn.

6. It is proposed that the progress that has been made to date be built upon in a formal Action Plan to be presented to the next Audit Committee and reported to the Trust Board.
7. It should be noted that the Audit Commission regarded the Trust's arrangement for internal audit and for counter-fraud were regarded as satisfactory
8. The letter draws some attention to instability within the Trust during the year. There has been significant change at Board and executive director level. The Trust has been reviewing its Governance and Management structures. Two new sub-committees have been established and the Risk Management Committee is now scoping strategic risk from across the Trust in a systematic way. The Audit Committee is leading a review of governance arrangements which it will undertake annually to ensure fitness for purpose. It is also reviewing Standing Orders/Standing Financial instructions and the Scheme of Delegation (effectively the Trust's written constitution) to ensure fitness for purpose. It is also considering future arrangements in terms of service provision; financial stability and governance in the knowledge that all Trusts are supposed to work towards NHS Foundation Trust status by 2008.

### ***Recommendation***

***The Trust Board are invited to***

- 1. Note the content of the Annual Audit Letter for 2004/05 and the presentation of it by the Audit Commission**
- 2. Note the progress being made by the Trust in addressing the weaknesses set out in the AAL; and**
- 3. Agree to the preparation of a detailed action plan to be considered by the Audit Committee and reported subsequently to the Board**