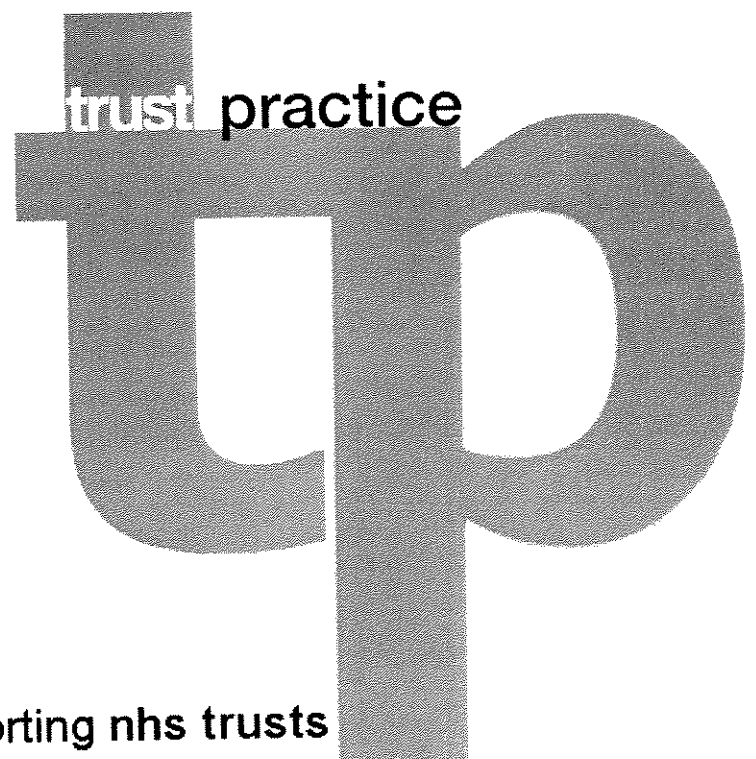


7/07

West Hertfordshire Hospitals NHS Trust

Annual Audit Letter
Audit 2005/2006
December 2006



External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Trust

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 or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

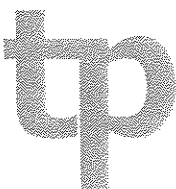
- any director or officer in their individual capacity; or
- any third party.

Copies of this letter

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Purpose, responsibilities and scope

The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the directors of the Trust, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Trust website.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Trust

- 3 We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public sector bodies in England, including NHS trusts.
- 4 As the Trust'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 Trust achieving its objectives. It is the responsibility of the Trust to ensure that 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 the Trust is fulfilling these responsibilities.

The scope of our work

- 5 We 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 Trust's accounts; and
 - whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 In addition to this, we use our assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Healthcheck.
- 7 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Trust. A list of all reports issued to the Trust in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

Key messages from the reports issued to the Trust this year

8 The following represents the key messages from our audit.

Table 1 Key conclusions and required actions

Area	Issue/conclusion	Recommended action
Opinion on the 2005/06 financial statements	We issued an unqualified opinion on the Trust's financial statements on 10 July 2006. The audited accounts reported that the Trust had a retained deficit of £26.785 million in year. We reported to the Audit Committee on 28 June 2006 unadjusted misstatements of £676,000 which management decided not to adjust.	Our summary report on auditor's local evaluation (ALE) provided the Trust with improvement opportunities in processes for financial reporting and accountability. <i>We recommend that the Trust address the improvement opportunities outlined in our ALE report.</i>
Public interest report and value for money conclusion	We issued a public interest report on 28 April 2006 which highlighted our concerns on the financial standing of the Trust and the four demised PCTs in the West Hertfordshire quadrant. On 10 July 2006 we also qualified our value for money conclusion on the grounds that the Trust has failed to put in sufficiently adequate arrangements to meet eight of the twelve criteria prescribed in the Audit Commission's Code of Audit Practice for assessing use of resources. Details of the reason for our qualification were contained within our Annual Governance report which was presented to the Audit Committee on 10 July 2006.	Our summary report on auditor's local evaluation (ALE) provided the Trust with improvement opportunities in arrangements for robust financial management, securing financial recovery, assuring internal control and delivering value for money. The ALE report covers the key issues contained within our value for money conclusion. Our public interest report contained key recommendations for the Trust and PCTs in securing financial recovery and to develop partnership arrangements in addressing the financial position of the quadrant. Following the recent reconfiguration of PCTs and proposed structure of acute services in West Hertfordshire, we will be revisiting our report to assess robustness of actions taken by the Trust and partners. <i>We recommend that the Trust address the improvement opportunities outlined in our ALE and public interest reports.</i>

Area	Issue/conclusion	Recommended action
ALE	<p>Our ALE work scored the Trust as performing below minimum requirements, particularly on the themes of financial standing, financial management, internal control and value for money.</p> <p>We issued a summary report of our findings to the Audit Committee on 28 June 2006 which contained details of strengths and key improvements opportunities.</p>	<p>The Trust has a challenging task to address the improvement opportunities identified during our ALE assessments in order to meet minimum requirements.</p> <p><i>We recommend that the Trust develops and monitors an improvement plan to address the key recommendations arising from our report.</i></p>
Specific risk based work	<p>We completed the following risk based work.</p> <ol style="list-style-type: none"> 1. Follow up of initial risk assessment on spot check waiting list management, in particular assessing the outcomes from the Strategic Health Authority review of arrangements; and 2. Acute Hospital Portfolio phase 6, as required by the Healthcare Commission. 	<p>There are no significant matters arising from this work which we need to report to the Trust Board. Detailed reports containing improvement action plans were produced from our AHP work which have been discussed with management. A summary of the key issues will be presented to the next Audit Committee.</p>

The Trust's direction of travel since our reports this year

- 9 In view of the reports we have issued to the Trust during our audit and in drafting this letter, we agreed with management to undertake an interim assessment of progress that the Trust has made in addressing the improvement opportunities identified in our public interest report and summary report on auditors local evaluation (ALE). This section of the letter summarises the findings from this work. In addition, the outcomes from this work will enable us to revisit and update our planned programme of work outlined in our 2006/07 audit plan.
- 10 Our 'direction of travel' review involved reviewing key Trust documents and interviews with both executive and non-executive directors and officers. Our key findings are outlined below.
- 11 We found at Board level an understanding of the scope of change required to bring about financial recovery, both in terms of the development of the Trust and of the reconfiguration of services across West Hertfordshire. At senior management level we also noted a stronger emphasis on financial recovery, along with examples of clear communication across the Trust about the need to keep to the existing plans.
- 12 As part of the recovery process the Trust has identified the need to improve its capacity in key areas such as Finance and HR and has agreed action plans to do this. For example an additional £330,000 is planned to be invested in the Finance Department and recent appointments to strengthen skills and capacity have been made. A number of temporary appointments have also been made to key areas such as divisional management. The Trust recognises the need for a major and continued investment in organisational development over the next two to three years although only interim arrangements have been established so far.
- 13 In recent years the Trust has fallen significantly short of the performance standards required of the NHS. The Healthcare Commission's recently published Annual Health Check found the Trust to be weak on both quality of services and on management of resources, one of only 24 Trusts to receive this rating on both counts.
- 14 In its Standards for Better Health declaration, the Trust assessed itself as not being compliant with the standards for sound clinical and corporate governance and systematic risk assessment and management. The Trust has recently reviewed how it works and takes decisions (for instance in 'How we do Business') and has agreed a number of changes to its governance arrangements designed to improve the Trust's decision making processes.
- 15 Apart from the formal structure of the Board sub groups, the Chief Executive has reviewed the working of the Executive team with the aim of making it a more strategic group while a 'Cabinet' of the Chief Executive, Director of Finance and Medical Director focus on more immediate financial issues. While we saw some evidence of improvement, for example the Finance and Performance Committee is now more action orientated, the new structure will need time to embed itself before its effectiveness can be determined.

- 16 The Trust has recently completed an extensive consultation exercise around 'Delivering a healthy future in West Hertfordshire', a review of the configuration of its services. This was acknowledged by an independent assessor to have been fit for purpose and included some examples of good practice. The Trust Board agreed its preferred option for further detailed analysis at its November meeting and the Trust now has a credible plan to reconfigure services and improve efficiency.
- 17 There are clearly a number of continuing and significant risks around delivering the strategic agenda and many of these are recognised within the Trust. The Trust has stated that 'dramatic and sustainable improvements are required' and it is not yet clear whether the measures already introduced will bring about this kind of improvement soon enough.
- 18 The Trust continues to face severe financial pressures and has already indicated that the control total imposed by the Strategic Health Authority for 2006/07 will be exceeded by up to £7 million if action is not taken to address the current rate of expenditure. The Trust has explored a number of strategies over the last eighteen months to deliver financial stability and continues to work to deliver planned savings and to remedy the additional deficit incurred in the first half of the financial year in order to meet the control total. These strategies fall into three main categories:
- * Improving operational efficiency;
 - * Improving Clinical Effectiveness; and
 - * Reconfiguring services.
- 19 The need to embed high quality financial management and operational control into the organisation is a high priority. This will be achieved by a re-structure of the finance department including investment in new posts and a professional development programme to improve financial management and planning skills both within the finance department and those of the operational managers. This will be set against the implementation of a performance management regime throughout the organisation focusing upon accountability and achievement of key financial and service targets.
- 20 Going forward, the Trust recognises it has a number of significant and fundamental challenges and is taking action to ensure that sustainable arrangements which deliver both service and financial improvements are implemented .As a result, we are refocusing our performance work for 2006/07 to review how the Trust proposes to take forward this significant change program.
- 21 The Trust has identified five key improvement themes to focus on:
- * Service Strategy (strategy and action planning - making strategies work));
 - * Finance (including economy, efficiency and effectiveness);
 - * Governance (including capacity and leadership, training and Board development));
 - * Performance management (including risk management); and
 - * Partnerships (including clinical engagement and patient and staff experience).

- 22 The Trust is in the process of developing its project management and governance arrangements for delivering these key improvement themes. We are in discussions with management as to how we can support the Trust in delivering this improvement by providing assurance to the Audit Committee and Board on the effectiveness of the Trust's arrangements and how the Trust is progressing the delivery of the improvement themes.

Key recommendations for the Board

R1 The Board must monitor the delivery of its improvement plan with a focus on achieving financial recovery.

R2 The Board must seek assurances that the programme for improvement aligns strategic, service, financial and risk management processes throughout all levels of the Trust.

R3 The Board should seek assurances that the Trust's improvement processes address the key issues arising from our ALE and public interest reports.

Closing remarks

- 23 This letter has been discussed and agreed with the Chief Executive and Director of Finance. A copy of the letter will be presented at the Audit Committee on 15 December 2006 and copies will be provided to all Board members.
- 24 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Trust during the year. These are listed in the following table.

Table 2 Reports issued in relation to the 2005/06 audit

Planned output	Actual date of issue
Audit Plan	March 2005
Acute Hospitals Portfolio	November 2006
Annual Governance Report	June and July 2006
Opinion on Financial Statements	July 2006
Value for Money Conclusion	July 2006
Auditors' Local Evaluation	September 2006
Annual Audit Letter	December 2006

- 25 This has been a difficult year for the Trust. However, they have taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Trust's assistance and co-operation in allowing me to discharge my statutory duties.

Rob Murray
Engagement Lead

December 2006

