

Independent auditor's report to the Directors of the Board of West Hertfordshire Hospitals NHS Trust

Opinion on the financial statements

I have audited the financial statements of West Hertfordshire Hospitals NHS Trust for the year ended 31 March 2007 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies relevant to the National Health Service set out within them.

This report is made solely to the Board of West Hertfordshire Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of Directors and auditor

The directors' responsibilities for preparing the financial statements in accordance with directions made by the Secretary of State are set out in the Statement of Directors' Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my our opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.

I review whether the directors' statement on internal control reflects compliance with the Department of Health's requirements '*The Statement of Internal Control 2003/04*' issued on 15 September 2003 and further guidance on 7 April 2006 and 2 April 2007.

I report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the directors' statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword, the unaudited part of the Remuneration Report, the Chairman's Statement and the Operating and Financial Review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2007 and of its income and expenditure for the year then ended; and
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.


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Rob Murray
Engagement Lead

Date: 22 June 2007

(Officer of the Audit Commission), Sheffield House, Lytton Way, Stevenage,
Hertfordshire, SG1 3HB

Statement of Internal Control 2006/07

1. Scope of responsibility

The Board is accountable for internal control. As Accountable Officer, and Chief Executive of this Board, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets for which I am personally responsible as set out in the Accountable Officer Memorandum.

As Accountable Officer I have put in place arrangements to review the individual objectives of the Executive Directors through both one to one sessions and weekly meetings with the Director team. This enables me to review progress with the key strategic plans and to hold Directors to account. These processes also enable the team to develop and strengthen its focus across the organisation which has been a significant contributing factor to the delivery of this 2006/07 control total.

The 2006/07 financial year has been extremely challenging for the Trust. Much has been done which provides a firm foundation from which to build for the future. Whilst most of the actions have been driven internally, a significant degree of external advice, support and encouragement has been provided by the Strategic Health Authority and the West Hertfordshire PCT. The Trust has worked hard at establishing good working arrangements with both the SHA and PCT over the year and I believe we have identified the key areas of common purpose that will enable us to work as a health economy to deliver the improvements in service that are required locally.

We have made good progress with building relationships with the newly emerging Practice Based Commissioning Groups and will continue the build on these into 2007/08.

The Trust continues to work with the County Overview and Scrutiny Committee (OSC) and have built upon the previous good relationships during 2006/07. The Trust attends the OSC meetings on a regular basis as well as participating in the health topic group.

I continue to be directly involved with the work of the Health Campus in Watford. This significant development involves partner organisations from a wide spectrum of interests including Watford Borough Council, Watford Football Club and the East of England Development Agency. All partner agencies are committed to achieving a successful development which will significantly improve the local environment and provide new hospital facilities for the whole of west Hertfordshire.

The Trust has many established and effective arrangements for working with the wider stakeholder communities, including patients and carers. We enhanced these during the consultation on Delivering a Health Future by running two successful Citizens Juries. As a consequence of the large numbers of people that contributed to the consultation, we now have a large number of interested local people who we intend to use as part of the development work on establishing the Board of Governors when we make out application for Foundation Trust status.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives,
- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in West Hertfordshire Hospitals NHS Trust for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

3. Capacity to handle risk

The Trust considers the management and handling of risk as one of its top priorities. The identification and management of risk is seen within the Trust as every employee's responsibility. To provide leadership and structure in the management of risk, the Chief Nurse/Director of Patient Services, Quality and Risk has specific responsibility for leading the risk management process. This responsibility is discharged throughout the organisation through the Trust's Assistant Director of Patient Services, Quality & Risk and Divisional Risk Leads. Divisional Risk Leads act as a resource and focus for the identification and review of risks within the Divisional setting. They also assist the Divisions in the development and implementation of effective ways to manage these risks as detailed in their Divisional Risk Management Strategies.

In addition to this, specific Risk Management guidance on the responsibilities of staff at various levels and, on the systems in place to manage Risk is detailed within the Trusts Risk Management Strategy and the Incident Reporting Policy. More in depth Risk Management guidance at Divisional level is detailed within the respective individual Divisional Risk Management Strategies.

All employees are introduced to Risk Management and Health and Safety at induction and this is revisited at mandatory staff updates yearly. The Trust hosts regular study days for Managers on Risk Management and Health and Safety, which addresses their individual responsibilities in detail and on Risk Scoring for Managers so they may effectively manage incident reports.

The Trust has a fully implemented and integrated risk management database and risk register. This can be viewed both within the Divisions and at Executive level. Risks are clearly recorded and identified in a standardised way.

Divisional performance is reviewed regularly across a range of key indicators, including the identification and management of risk. At a strategic level the Board has reviewed the reporting arrangements for strategic risks and the requirement that this process links directly to the Assurance Framework. Strategic risks and the Assurance Framework are now reviewed monthly by the Directors, included in the monthly Performance Report to the Board and discussed by the Board at its monthly meetings in public. Within 2006/07 the Board has established a new Assurance Committee that takes the lead for strategic overview and scrutiny of risk management across the organisation.

There is representation by the Trust at the Bedfordshire and Hertfordshire Clinical Governance Liaison Group and a Regional Patient Safety Forum to ensure that a strategic approach to risk is aligned across the regional health economy. Minutes from this Group are sent automatically to the Trust's Assistant Director of Patient Services, Quality & Risk for noting and action.

Additionally, the National Patient Safety Agency Regional Manager communicates directly with the Assistant Director of Patient Services, Quality and Risk to also ensure consistency in approach.

As Accountable Officer I seek to learn from good practice via exchange of information with other Chief Executives regarding good practice in their organisations, reading of relevant articles and documentation and advice from managers and staff within the Trust as to what has worked well in handling risk and should be rolled out across the organisation.

In addition, the Trust works with the other partners in managing elements of risk. The Trust works with the Strategic Health Authority via various structures. Chief Executives across the health economy meet regularly and I have regular meetings with colleagues from the SHA. Chairs across the Health Economy also meet on a regular basis and there are a number of other functional groups e.g. Directors of Finance, who have a formal programme of meetings across the year.

4. The risk and control framework

The Trust has implemented a process for identifying, evaluating and managing the significant risks faced by the Trust throughout the financial year and up to the approval date of the annual accounts. The process is subject to regular review by the Board directly and via the Assurance and Audit Committees. The Trust has reviewed its governance arrangements during the year. It has reduced the number of Trust Board sub committees. These now take on the scrutiny and strategic overview function and report to the Board. A number of Executive Groups have been established focussing on the operational aspects of the Trust's business and reporting to the Trust Board sub committees. Significantly, as far as the risk and control framework is concerned, the Risk Management Group provides

the appropriate focus and control and has had the support of the following Executive Groups:

- Clinical Standards Executive
- Environment and Facilities
- Health & Safety
- Emergency Planning
- Operations

Through this structure significant risks are identified, evaluated and controlled. There is an emphasis on ensuring that risk identification and management is embedded within the Divisional structures. Through the Divisional risk leads, organisational systems and processes for risk identification, scoring, recording and mitigation are undertaken and overseen by the Assistant Director of Patient Services, Quality and Risk.

The Business Planning process continues to be integral in identifying risks for the Divisions, and in populating the Trust's Risk Register and Assurance Framework, which has been in place since April 2004.

All risks, or changes in risk, are identified and described in the Trust's Risk Register. They are then evaluated and prioritised so that an action plan can be devised for the most significant ones. The Trust's Risk Management Team reviews and monitors this process. Performance reports on the management of risk are provided on a six monthly basis to the Assurance Committee.

Building on the improvements made on the incident reporting procedure during 2005/6, the Trust now provides the Risk Management Group with a quarterly analysis of key themes extrapolated from incident reporting data held on its Risk Management Database. Where there are issues of concern arising from this report which cannot be resolved by the Risk Management Group these are escalated to the Assurance Committee. This process ensures that the Assurance Committee can advise the Board of significant issues that create a risk to the Trust as well as providing the Board with the necessary assurance that the risk management systems and processes are being effectively managed. The Trust plans to implement a paperless incident reporting system during 2007/8.

Steps continue to be taken to embed internal control and risk management further into the operations of the Trust and to deal with areas of improvement which come to management's and the Board's attention. In particular the following actions have raised the profile of risk management:

- Integrated approach to reviewing strategic risk
- Improved monitoring performance of strategic risk management
- Continued regular performance audit of the Trusts Risk Management Database

The Trust's strategic objectives have now been aligned with 'Standards for Better Health' and consequently all gaps in compliance recorded on the Assurance Framework. Executive and operational responsibility for each of the Standards for Better Health

domains has been assigned and monitoring of compliance is ongoing. The Trust has made significant progress in meeting the core standards compared to our 2005/6 Declaration. For our 2006/7 declaration the Trust declared compliance with 42 standards out of 44.

The Trust has reached the "Practice Plus" level of the Improving Working Lives standard.

External audit recommendations are acted upon and updated to the Audit Committee.

The Trust actively involves and seeks the views of our patient's via the following groups/panels:

Patients' Panel. The Trust's Patients' Panel has been established for four years and plays an active part in the Trust. The Panel is linked into a wide range of committees, meetings and projects within the Trust, including iPEAT inspections and reviewing all patient information and questionnaires to ensure it is 'user friendly' before being published.

The Patients' Panel together with the PPI Forum members and patient representatives have been involved in the Investing in Your Health (liYH) project team in respect of the new Watford Health Campus. By attending the Internal Hospital User Groups (IHUGS) and Health Impact Assessments the Trust has ensured their involvement in the planning of the future hospital. The Panel has also been involved in the Delivering a Healthy Future consultation process.

The Patient Experience Group has now merged with the new Patient Involvement and Experience Group and is now chaired by the Chief Nurse/Director of Patient Services, Quality and Risk. Membership includes PALS, Patient & Public Involvement, Patients Affairs, Patient & Public Involvement Forum, Modern Matrons, Spiritual & Pastoral Care Coordinator, Quality & Risk, Infection Control, Facilities and Voluntary Services. There are also forty to fifty patient representatives who link in with the Panel from time to time to carry out various tasks within the Trust.

Patient & Public Involvement Forums. Patient & Public Involvement Forums were established in December 2003 to monitor and review health services from the patient's perspective, to seek the public's views about health services and to make recommendations to the NHS based on those views. The Healthcare Commission oversees them.

The Acute Trust PPI Forum has been active within the Trust since 2003 and has eleven members to date. The Trust continues to support and work closely with the Forum. The Head of Patient Services is the main Trust link, liaising with the PPI Forum Support Officer from the Community Development Agency to meet with the Trust Chair and myself, which allows them all the opportunity of hearing issues of joint interest. A newsletter is in development to keep PPI Forum members and volunteers within the hospital updated. The Forum Chair is formally invited and has a seat at the Trust Board with speaker's rights.

The Forum holds regular public meetings across the three hospital sites to which various members of WHHT and the SHA have spoken.

The Forum is currently linked into iPEAT visits, Think Clean Day, the Patient Involvement and Experience Group (PEG) and all public consultations undertaken by the Trust.

PPI Forum members, using their statutory rights, also visit the Trust to undertake both announced and unannounced monitoring visits.

The Trust is committed to its continued involvement in the Early Adopters Programme as part of the implementation of LINKs.

As an employer with staff entitled to membership of the NHS Pension scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments in to the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations

5. Review of effectiveness

As Accountable Officer, I have responsibility on behalf of the Trust for reviewing the effectiveness of the system of internal control. My review is informed by the Assurance Framework. The process provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. My review is also informed by the recent reviews that have been carried out in the Trust by the Clinical Negligence Scheme for Trusts (CNST), National Health Service Litigation Authority (NHSLA) Risk Management Standards, Patient Environment Action Team (PEAT), Improving Working Lives (IWL) and Health and Safety Executive (HSE). The Head of Internal Audit will provide the Trust with an opinion statement on the overall arrangements on internal control and on the controls reviewed as part of their internal audit work. Executive Directors are providing me with assurance on the development and maintenance of the system of internal control.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee and Risk Management Group. A plan to address weaknesses and ensure continuous improvement of the system is in place.

Below describes the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some comment on the role of:

The Board. The Trust Board has endorsed a mechanism to gain assurances about the effectiveness of the controls in place to manage principal risks. This mechanism ensures that risks are fed up to the Board through the organisational structure in place within the Trust.

The Board reviews and maps these to its own assurance needs, enabling it to address and put in place any improvements necessary.

The Audit Committee. The Audit Committee has reported directly to the Board providing assurance on the maintenance of the system of internal control. The Committee comprises three Non-Executive Directors with the Director of Finance and other representatives including Internal and External Audit in attendance. I attend meetings on a regular basis.

The Audit Committee's primary role is to independently oversee the governance and assurance process on behalf of the organisation and to report to Trust Board on whether the systems in place for risk management and internal control are robust and effective. The Audit Committee receive regular reports from the Assistant Director of Patient Services, Quality and Risk ensuring that appropriate issues are escalated to the Audit Committee from the Risk Management Group. This Committee ensures that audit plans are drawn up with full consideration of all risks as detailed within the Trust Risk Register.

The Assurance Committee. The Trust Assurance Committee is responsible for scrutinising and seeking assurance that co-ordinated risk management activities across all areas of Trust remain effective. It is responsible for advising the Board on matters affecting the compliance of organisational systems and processes set up to maintain the effectiveness and efficiency of the Trust, ensuring the reliability of internal and external reporting and assisting with compliance with legal obligations and regulations. The Assurance Committee considers all formal reports to external bodies before they are issued. It also considers the risk register on a regular basis.

The Assurance Committee will consider/prescribe any treatment/action necessary when reviewing principal risks escalated to them and also prioritise and report significant risks accordingly to the Trust Board. The Assurance Committee also reviews and directs the Trust's strategic approach to managing risk to ensure that it is able to meet its strategic objectives.

Executive Directors. Executive Directors have overall responsibility for the implementation of the risk management strategy. They are responsible for the overseeing of the processes for identifying and assessing risk, and for advising me as necessary. They ensure that, so far as it is reasonably practical, resources are available in order to manage risk.

Principal risks that threaten the achievement of the Trust's strategic objectives are managed proactively and identified from existing risk management arrangements through the Trust Risk Management Group and other appropriate Executive Groups chaired by the Executive Directors. The Trust identifies through these Groups organisational risks. Where it is not possible to respond appropriately to the risks identified Executive Groups will report these exceptions to the Assurance Committee for review and advice.

Internal Audit. Internal Audit reviews the system of internal control throughout the year and reports accordingly to the Audit Committee. In its Annual Report for 2006/07 Internal Audit gave the following opinion:

Based on the work undertaken in 2006/07, significant assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives and that controls are generally being applied consistently. However, some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk

External Audit. The External Auditors have concluded their 2006/07 audit and given an unqualified opinion. However, significant concerns have been raised regarding the Value for Money conclusion. The Auditors concluded that they were not satisfied that, in all significant respects, the Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

6. Significant Internal Control Issues

The Trust agreed with the East of England Strategic Health Authority (SHA) a control total Income and Expenditure (I&E) deficit for 2006/07 of £11.5m. Against this, the Trust achieved a deficit of £11.4m. The Trust has agreed with the SHA that it will achieve an I&E surplus of £5m for the 2007/08 financial year. To achieve this the Trust has undertaken the following:

- Put in place a Board-approved action plan to strengthen the financial and governance arrangements of the Trust, including the issuing of a new Trust Governance document incorporating updated Standing Orders, Standing Financial Instructions and Scheme of Delegation.
- Following public consultation, put in place an accelerated programme to rationalise the services provided on each hospital site ahead of the major hospital rebuilding scheme on the Watford site, which will be completed in 2014.
- Set up a Turnaround Team under the leadership of a Turnaround Director, supported by dedicated staff, to identify and implement workstreams designed to maximise income, clinical efficiency, non-clinical efficiency and the alignment of staff to tasks. This work is well advanced as evidenced by the Trust reducing its deficit from £26.8m in 2005/06 to £11.4m in 2006/07. Further work by this team will underpin the move to a £5m surplus by the end of 2007/08.
- Continued to work on the outline business case for the major hospital rebuilding scheme on the Watford site due for completion in 2014. This scheme will help to ensure the longer-term viability of the Trust.
- Following the concerns raised by Internal Audit regarding a lack of reconciliation between the ledger figures and those reported to the Board, Internal Audit reviewed the month 11 position and were satisfied that full reconciliation was now in place.

- Allocated to Directors specific responsibilities in respect of the ALE Key Lines of Enquiry which are reviewed bi-monthly to ensure improvement in future scores

The Trust has not been able to declare compliance in two of the Standards for Better Health – C22a & c and C23. Both these fall within the public health domain. With respect to C22 the Trust has specifically highlighted that arrangements are not formally defined within the organisation. There has not been, until recently, the relevant partnership group in place within the region for the Trust to work with. Consequently joint plans have not been put in place. However, links are being established with key stakeholders and the trust has established a Partnership Group led by an Executive Director to facilitate improved partnership working in order to ensure compliance of this standard in the future.

With respect to C23, although there has been a lot of work undertaken in the Trust to meet the requirement to put in place disease prevention and health promotion programmes, it is recognized that the Trust needs to undertake a baseline assessment and identify the gaps in order to establish a comprehensive Trust wide public health strategy. Once this has been undertaken the Trust will be compliant.

Following a Trust Board decision on 16th November 2006 to centralise acute services at Watford General Hospital and planned surgery at St Albans City Hospital, the Trust received a legal challenge against the decisions taken. Although it has been decided to allow a full Judicial Review (JR) hearing, it has been agreed that the Trust can continue to implement those elements of the service changes that could be reversed should the outcome of the JR go against the Trust. At a meeting on 11 January 2007, the Board considered a business case for capital investment at St Albans City Hospital that was approved for submission to the Strategic Health Authority for consideration.

All risks are reviewed on a continual basis to ensure that there are no gaps in control and/or assurance. Where these occur they are added to the risk register and there are action plans in place to address them.



David Law
Chief Executive

20/6/07