



West Hertfordshire Hospitals NHS Trust

Annual Audit Letter 2009/10

September 2010

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1 Introduction and key messages

Purpose of this Letter

- 1.1 This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at West Hertfordshire Hospitals NHS Trust ('the Trust') during our 2009/10 audit. The Letter is written in an accessible style, designed to communicate our key messages to the Trust and external stakeholders, including members of the public. The Letter will be published on the Trust's website.

Responsibilities of the external auditors and the Trust

- 1.2 This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).
- 1.3 We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Trust's key risks when reaching our Code conclusions.
- 1.5 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.

What this Letter covers

- 1.6 This Letter covers our 2009/10 Code audit, including key messages and conclusions from our work in:
- auditing the 2009/10 year end accounts and the 2008/09 balance sheet restated under International Financial Reporting Standards (Section 2)
 - assessing the Trust's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 We have not repeated recommendations agreed with the Trust during the year in this Letter. A list of the reports that contain these recommendations can be found at Appendix A. Appendix B sets out our actual and budgeted fees for 2009/10.

Key areas for Trust action

- 1.8 We highlight the following key areas, where the Trust should take action to further improve its arrangements in 2009/10:
- The Trust should continue the alignment of the risk management strategy and the assurance framework to the long term strategic objectives of the Trust.
 - The links between the Statement of Internal Control (SIC) and Assurance Framework require strengthening, the improvement of the risk registers to feed into the assurance framework should aid the process.
 - The Trust should regularly report to the Board a set of Estate key performance indicators and take appropriate action where necessary.
- 1.9 The context for these key messages can be found in this Letter.

2 Audit of accounts

Introduction

- 2.1 We issued an unqualified opinion on the Trust's 2009/10 accounts on 10 June 2010, meeting the deadline set by the Department of Health. Our opinion confirms that the accounts give a true and fair view of the Trust's financial affairs and of the income and expenditure recorded by the Trust.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to "those charged with governance" (defined as the Audit Committee at the Trust). We presented our Annual Report to those Charged with Governance to the Audit Committee on 9 June 2010 and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 The Trust performed very well in producing a timely and accurate set of accounts against an increasingly tight timetable and a couple of notes to the accounts were submitted to the audit commission as examples of best practice. The initial set of working papers provided were timely and comprehensive and responses to our audit queries and requests for further working papers and evidence were very satisfactory.
- 2.4 There were no significant audit adjustments. We raised a small number of other proposed adjustments and suggested improvements, none of which were material in nature.

Financial performance

- 2.6 The Trust met all of its statutory financial targets for 2009/10, as set out below:

Table 1: Performance against statutory targets

	Target	Actual	Met
Surplus/(Deficit)	£4.6m	£5.7m	✓
Capital Cost absorption	3.5%	3.5%	✓
External Financing Limit	£11.117m	£9.341m	✓
Capital Resource Limit	£22.890m	£18.668m	✓

- 2.7 The Trust exceeded its planned control total of £4.6m surplus by recording a £5.7m surplus. The 2009/10 financial performance demonstrates the Trust's continued strong financial management.
- 2.8 The Trust has improved its performance against the non-statutory target in relation to the Better Payment Practice Code but still remains below target. The Code

requires the Trust to aim to pay all undisputed invoices within 30 days (or due date if later). The Trust paid 78% of non-NHS trade invoices and 67% of NHS trade invoices with the target date.

- 2.9 The Trust has set a target to achieve a surplus of £8.1m. As at month 3 the Trust is £1.5 million below target and has been flagged as an area that requires attention.
- 2.10 Therefore, although the Trust has set a balanced budget for 20010/11, the financial position is challenging and management recognises that strong financial controls will need to be in place during the year to meet financial targets, whilst investing in planned service developments.

Financial systems

- 2.11 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Trust's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.
- 2.12 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Trust's 2009/10 accounts. We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact our audit of the accounts.

Statement on internal control and annual report

- 2.14 We examined the Trust's arrangements and process for compiling the Statement on Internal Control (SIC) and read the SIC to consider whether it was in accordance with our knowledge of the Trust. We also reviewed the draft version of the Trust's annual report to confirm that this was consistent with our knowledge and to confirm that the summary financial information presented was consistent with the audited financial information.
- 2.15 We concluded that the initial draft SIC reflected an understanding of the Trust's overall arrangements but there was scope for further improvement in the presentation. The annual report was consistent with our knowledge of the Trust.
- 2.16 The Trust has produced the annual report that was subject to revision from the original draft format. The Annual Report will require improvement to meet the reporting requirements of Quality Accounts in 2010/11. The Department of Health is still to decide whether or not Quality Accounts will be subject to audit in 2010/11.

Restatement of the 2008/09 Balance Sheet under IFRS

- 2.17 The Department of Health issued guidance for the restatement of the 2008/09 Balance Sheet based on International Generally Accepted Accounting Principles (referred to as IFRS). We had previously reported on the restatement of the opening 2008/09 Balance Sheet in the prior year and this exercise was an extension of the previous exercise.

- 2.18 The Audit Commission determined that auditors will report to the Audit Commission on the restated figures under IFRS phase 2.
- 2.19 Our work consisted primarily of:
- checking whether the unadjusted financial information of the Trust had been accurately extracted from an appropriate source.
 - assessing whether all adjustments necessary for the purpose of presenting the financial information consistent in all material respects with the accounting policies contained in the IFRS NHS Manual for Accounts 2009/10 had been made.
 - examination of evidence supporting the adjustments.
 - checking the arithmetical accuracy of the adjustments..
- 2.20 On 30 October 2009, we reported our findings to the Audit Commission, the Trust were awarded an received a clean opinion having addressed the issues of adoption of IFRS compliant accounting policies, the development of a system to calculate holiday pay accrual and correctly classified leases as finance/operating leases.

3 Use of resources

Introduction

- 3.1 We issued our annual VFM conclusion on 10 June 2010, at the same time as our accounts opinion, meeting the 11 June 2010 deadline set by the Department of Health. We concluded that, for 2009/10, the Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 Prior to giving our VFM conclusion, we set out the basis of this conclusion and the results of our assessment of the Trust against the use of resources framework, in our Use of Resources report, which we presented to the Audit Committee on 14 September 2010. In this Letter we summarise the key messages from this work alongside relevant current findings, and look forward to forthcoming challenges for the Trust.

2009/10 VFM conclusion and ALE assessment

- 3.3 Our VFM conclusion was informed by our use of resources work which, in Trusts, is based on the Audit Commission Auditors Local Evaluation (ALE) assessment. In order for us to provide an unqualified conclusion, the Trust needed to achieve an 'adequate' assessment (score of at least 2) for each Key Line of Enquiry (KLoE) area. Failure to achieve an 'adequate' assessment in any one area results in an "except for" conclusion.
- 3.4 We assessed the Trust as achieving level 3 score representing the Trust is performing consistently above minimum requirements in all of the areas covered by our ALE assessment, except for the Financial Standing KLoE which recorded a level 4 score and is the highest mark available within the assessment. The scoring awarded led to 'adequate' conclusions for the relevant criteria within our overall VFM conclusion.
- 3.5 The findings from our 2009/10 ALE assessment were reported to the Audit Committee in September 2010 and our scores have, subsequently, been confirmed following Audit Commission national quality control. The Trust's ALE scores in the five themes, drawn from the scores above, are summarised in the table overleaf.

Table 2: ALE scores

Key for KLoE scores:

1 - Below minimum requirements - inadequate performance
 2 - Meets minimum requirements – performs adequately
 3 - Exceeds minimum requirements – performs well
 4 - Significantly exceeds minimum requirements – performing excellently

Theme	2010	2009
Financial Reporting	3*	3
Financial Management	3	3
Financial Standing	4	3
Internal Control	3	2
Value for Money	3	3
Overall score	3	3

* the Trust scored a 4 for the Annual Accounts sub-theme of this KLoE.

- 3.6 We assessed the Trust as performing well in four of the five KLoE themes, which represents an overall score increase for the second year in succession.
- 3.7 Key actions for the Trust, arising from our assessment, include:
- further work needs to be performed to strengthen the Trust's risk management arrangements and the links with strategic objectives and Assurance Framework.
 - the need to report to Board against a set of estate key performance indicators and take appropriate action where necessary.
 - further information to be disclosed with regard to the Trust's environmental footprint.
- 3.8 we will continue to assess the Trust's arrangements in the areas currently covered by the ALE framework, on a risk basis, subject to further discussion between the Audit Commission and the Department of Health about the overall continuance of the ALE/UoR.

Looking ahead

- 3.9 Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Audit 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 Audit 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.

3.10 Further risks relevant to the Trust may be around:

- information management and data security
- medium term financial management in an environment of reducing public spending.

3.11 We agreed our indicative 2010/11 audit fee with the Trust in March 2010. The letter set out our initial assessment of the local risk based use of resources work we plan to carry out to support our Value for Money conclusion. This comprised:

- Reviewing the value for money impact of any changes to local healthcare service, including reviewing the Trust's budget and medium term financial plans.
- Reviewing the Trust's progress against new initiatives around good governance in 2010/11, including the 'Quality Accounts' framework, and a review of data quality arrangements.

3.12 We have confirmed that these assumptions remain relevant and we will build these into the risk assessment for our 2010/11 plan, along with specific follow up of our 2009/10 recommendations.

4 Closing remarks

Introduction

- 4.1 This Letter was agreed with the Director of Finance and presented to Audit Committee on 14 September 2010.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Trust's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP
September 2010

Appendix A 2009/10 reports issued

Report	Date issued
Annual Audit Fee Letter	January 2009
Audit Plan	December 2009
Annual Report to those Charged with Governance	June 2010
Auditors Local Evaluation Report	September 2010
Annual Audit Letter	September 2010

Appendix B Audit fees 2009/10

Audit area	Budget 2009/10	Actual 2009/10
Financial statements	£91,000	£91,000
VFM conclusion / Auditors local evaluation	£70,000	£70,000
Total Code of Practice fee	£161,000	£161,000



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