

West Hertfordshire Hospitals NHS Trust

Annual Audit Letter 2010/11

19 September 2011

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1. Executive summary

Purpose of this letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at The West Hertfordshire Hospitals NHS Trust ('the Trust') during our 2010/11 audit. The Letter is 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.

What this Letter covers

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Trust's arrangements for securing economy, efficiency and effectiveness to ensure value for money is achieved (Section 3)
- reviewing the Trust's reference cost data quality (Section 4)
- reviewing the Trust's Quality Accounts (Section 5).

Responsibilities of the external auditors and the Trust

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).

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.

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 conclusions under the Code.

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.

Our main audit conclusions for the year

The 2010/11 accounts give a true and fair view of Trust's financial affairs and of the income and expenditure recorded by the Trust.

The Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Key areas for Trust action

We highlight the following key areas, where the Trust should take action to further improve its arrangements in 2011/12:

- The Trust has set a challenging cost improvement programme annual saving of £15.5m, as at month 5 the Trust had achieved £5.6m of savings but still needs to maintain the robust approach to savings employed to date.
- Enhance the financial reporting to the Board via the strengthening of monthly variance analysis reporting.
- The Trust should continue its developing relationships with GPs and other stakeholders to ensure it is well placed when Clinical Commissioning Groups take over commissioning responsibilities after April 2013.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A. Recommendations have been raised within the reports listed and the Trust should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

Acknowledgements

This Letter has been agreed with the Director of Finance and was presented to Audit Committee on 15 September 2011.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff.

Grant Thornton UK LLP
19 September 2011

2. Audit of the accounts

Introduction

We issued an unqualified opinion on the Trust's 2010/11 accounts on 9 June 2011, meeting the deadline set by the Department of Health (DH). Our opinion confirms that the accounts give a true and fair view of Trust's financial affairs and of the income and expenditure recorded by the Trust.

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 8 June and summarise only the key messages in this Letter.

The Trust submitted a set of draft accounts and accompanying working papers on 20 April 2011, this was 1 day in advance of the national deadline of 21 April 2011. The Finance Department once again provided high quality set of working papers and client staff were available at all times during the course of the audit .

Audit of the accounts

We did not identify any audit adjustments that impact on the Trust's income and expenditure position (statement of comprehensive income). The adjustments noted on the balance sheet (statement of financial position) were of a presentational nature only and had no overall net effect on the Trust's reported assets and liabilities.

All of the presentational adjustments were approved by those charged with governance at the Audit Committee on 8 June 2011.

Financial performance

The Trust achieved all of its statutory targets for the year as set out in Table 1, including achieving a surplus of £7.530m.

The initial planned surplus of £8.1m was reduced to £7.5m reflecting the revised forecast position. The Trust set an initial savings target of £19.3m and achieved £18.1m of savings, representing 7% of Trust income.

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Table 1: Performance against statutory targets

	Target	Actual	Met?
Surplus/(Deficit)*	Break even or better	£7.530m	☺
Capital Cost Absorption Duty	3.5%	3.5%	☺
Capital Resource Limit	Not over £8.188m	£6.976m	☺
External Financing Limit	Not over (£4.712m)	(£6.421m)	☺

*The surplus for the year represents the performance for financial monitoring purposes. The figure excludes the impairment due to the revaluation of land and buildings of £6.178m charged to the Statement of Comprehensive Income.

As in previous years, and in common with many NHS bodies, the Trust did not meet its target in relation to the Better Payment Practice Code, which requires Trusts to pay 95% of its undisputed invoices by the due date or within 30 days of the receipt of goods. The Trust made timely payments for 82% of NHS invoices by value and 79% for non-NHS invoices, which is an improvement upon the prior year performance of 69% of NHS invoices and 78% of non-NHS invoices.

The 2011/12 NHS Operating Framework calls for £20 billion in efficiency savings between 2011/12 and 2014/15. The QIPP (Quality, Innovation, Productivity and Prevention) challenge is supported by trusts' individual Cost Improvement Programmes (CIPs).

The Trust recognises the importance of meeting its financial targets for 2011/12. As at the end of month 3, the Trust was reporting a surplus of £1m for the year and a variance of £1.8m against its year-to-date budget. The Trust's budget for the year is based on the delivery of a £4.4m surplus. The Trust's savings programme is also behind target with £2.54m being achieved as at the end of month four against a year to date target of £4.3m. The rate of variance against plan as slowed and the Trust is in the process of implementing plans to ensure year end targets are met.

Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work was in three main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit
- assessment of the work of internal audit to ensure that it was appropriate to support our work in auditing the Trust's 2010/11 accounts
- high level review of the general IT control environment

Our work did not identify any control issues that present a material risk to the accuracy of the financial statements.

However, we identified one area where controls should be strengthened:

- The counting of theatre stock should be performed over the course of one or two days and a control should be implemented to record all issues and receipts of stock whilst the count is being carried out

The actions agreed with the Trust to resolve these weaknesses was included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

Statement on Internal Control and Annual Report

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.

We concluded that the SIC and annual report were consistent with our knowledge of the Trust, subject to a small number of enhancement adjustments, which management incorporated into the final versions of the documents.

Looking ahead

The Health and Social Care Bill introduced in January 2011, and the subsequent 'listening exercise' in June 2011, are leading to significant changes across the health sector. The Bill contains provisions covering five main themes:

- strengthening commissioning of NHS services
- increasing democratic accountability and public vote
- liberating provision of NHS services
- strengthening public health services, with responsibility returning to councils
- reforming health and care arm's length bodies.

By October 2011 it is anticipated that the NHS Commissioning Board will be in place in shadow form, and that SHA cluster arrangements will be in place. In 2012 we will see the choice of 'Any Qualified Provider' phased in gradually, Clinical Commissioning Groups (CCGs) will begin to be established and authorised, and the NHS Trust Development Authority will be established in shadow form. By April 2013 all CCGs will be established, SHAs and PCTs will be abolished and the NHS Commissioning Board will take on its full functions, including commissioning on behalf of CCGs that are not yet ready or willing to do so.

The Trust will need to ensure that it has plans and processes in place to be able to build strong relationships with emerging CCGs *and the NHS Trust Development Authority* and to be able to identify and respond effectively to all risks and opportunities that will emerge as a result of these changes.

The Coalition Government's expectation is that any remaining NHS Trusts will be authorised as Foundation Trusts by April 2014, or as soon as clinically feasible. If any Trust is not ready by April 2014, it will continue to work towards FT status, supported by the NHS Trust Development Authority.

In addition, the Government has further extended the transition period where Monitor retains specific oversight powers over FTs until 2016. This is to enable time for FTs' governors to build capability in holding their Boards to account. Monitor's oversight will last until two years after an FT is authorised.

The Trust is currently awaiting confirmation from the Department of Health that they are able to re-profile their loans and in the process increasing their liquidity ratio score to a level 3 scoring, one of the current barriers to entry to FT status. The Trust will not receive their re-profiled loans until after the FT authorisation date.

The Trust will update their FT application, which will involve a refresh of the business plan key assumptions and financial reporting procedures review previously performed by Ernst & Young LLP once their FT application is re-activated..

Other current national NHS public sector issues that are likely to have a significant bearing on the trust involve the Coalition Government plans for Trusts to be penalised for emergency readmissions within 28 days of discharge. Broadly speaking hospitals can expect to be paid for initial treatment but not again if the patient is readmitted with a related problem. The Trust will need to manage and monitor this risk and prepare for any potential financial impact of poor performance

3. Value for money

Introduction

The Code of Audit Practice 2010 (the Code) describes the Trust's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Trust has proper arrangements in place for securing financial resilience
- the Trust has proper arrangements for challenging how it secures economy, efficiency and effectiveness.





Key Conclusions

We issued our annual value for money (VFM) conclusion on 8 June 2010, at the same time as our accounts opinion, meeting the deadline set by the Department of Health. We concluded that the Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Value for Money projects undertaken during the year

Financial resilience

We undertook a review of the Trust's financial resilience to inform our VFM conclusion. Key findings are within the table below.

Area of review	Summary observations	Summary level risk assessment
Key indicators of performance	<ul style="list-style-type: none"> The Trust performs well against statutory financial targets, except for PSPP and the Trust has improved payment performance in FY11. The Trust has consistently achieved a FRR of 3 against Monitor metrics and continue to forecast a FRR of 3 in FY12 on the proviso the Trust loans are re-profiled. This would be sufficient performance to be authorised as a FT, subject to meeting the other quantitative and qualitative criteria set by Monitor. 	 Amber
Strategic financial planning	<ul style="list-style-type: none"> The Trust are forecasting a financial surplus of £4.4million and a CIP programme of £15.5million and have a track record of achieving their targets, although in FY11 the Trust fell marginally short of their targets, whilst still delivering savings in excess of 7% of income. The Trust has identified a program of £66.4 million of backlog maintenance, in order to ensure its estate meets DH requirements, but has budgeted addressing £22.9million within the LTFM. However addressing the total the backlog necessarily has to be planned over a longer term period to ensure the Trust can still operate effectively. 	 Amber
Financial governance	<ul style="list-style-type: none"> The Finance committee ensure that strategic financial issues are addressed in a robust fashion. Within the monthly finance reports presented to Board, each division reports financial performance together with a narrative explanation of the variance to budget but the narrative explanation supporting the variance varies in quality between divisions. 	 Green
Financial control	<ul style="list-style-type: none"> The Trust has good arrangements for financial control, with arrangements in place for setting and monitoring budgets and internal control. External assurance has been obtained over these areas. The Head of Internal Audit provided an opinion of significant assurance on the Trust's control environment. 	 Green

Key:  High risk area  Potential risks and/or weaknesses in this area  No causes for concern

Our overall conclusion is that the Trust had proper arrangements for securing financial resilience but there were some areas where improvements should be made. We presented our report to the Audit Committee on 15 September 2011, which included an agreed action plan to deal with the issues raised. We will follow up progress in implementing the plan as part of our 2011/12 audit.

Challenging VFM

We undertook the following reviews during the year to inform this aspect of our VFM conclusion.

·Review of Arrangements for Data Quality - Overall we found the Trust appears to have sound arrangements in place for producing relevant and reliable data and information to support decision making and manage performance.

·Follow-up of 2009/10 ALE scorings - The Trust scored 3 overall within the 2009/10 ALE assessment. We have satisfied ourselves that the direction of travel in 2010/11 would not have led to deteriorating scores if the ALE assessment had been undertaken this year.

·Assessment against Securing Economy, Efficiency and Effectiveness risk indicators - we have satisfied ourselves that the risk indicators that could lead to a qualified opinion on Securing Economy, Efficiency and Effectiveness are not in place at the Trust

Our overall conclusion is that the Trust had proper arrangements for challenging how it secures economy, efficiency and effectiveness but there were some areas (referred to above) where improvement should be made. We will follow up progress in implementing the agreed action plans as part of our 2011/12 audit.

Approach to local VFM work 2011/12

At time of writing there are no changes proposed to the approach to local VFM work in 2011/12. We will focus on the two key reporting criteria, namely:

- the Trust has proper arrangements in place for securing financial resilience
- the Trust has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Trust.

4. Payment by Results - reference costs

Introduction

In 2008/09, the DH asked the Audit Commission to review the quality of reference costs from a sample of 16 NHS organisations (15 acute trusts and one PCT). Because of the review findings, DH recommended the Audit Commission, as part of its PbR data assurance framework, deliver a programme of reference cost data quality reviews at all acute NHS trusts and FTs in 2010/11. We were commissioned to undertake the review at West Hertfordshire Hospitals NHS Trust which was mandated by the Audit Commission under the PbR data assurance framework.

We carried out the audit in January 2011 using reference cost data from April 2009 to March 2010.

Main Conclusion

Based on the work completed, we found the Trust's reference cost submission in 2009/10 was materially accurate. However some of the costing and activity data is variable in quality. There was particular concern over elements of the reported activity data for the urgent care centre and accident and emergency that the Trust had already identified from its internal processes.

Summary of key findings

The key findings of the reference cost data quality review are:

Our work has shown that the Trust's systems and processes are ensuring that all relevant costs and activities are included in the reference cost submission. Similarly there are good systems in place to allocate costs across the activities undertaken.

The Trust has had identified issues with the recording of pathology data for its accident and emergency patients; stroke data whereby information is not separated accurately between the acute and rehabilitation phases of treatment; pathology testing where data is not always matched to patient data; urgent care centre information where no information is recorded on to PAS and finally theatre data where relevant practitioner activity is not always accurately recorded.

The Trust is continuing to implement Service Line Reporting (SLR) and have run their first service line reports in the August board meeting. There is currently a lot of effort and resources going into this to try and ensure that the data will be able to provide accurate and meaningful information for the data to be used. The Trust recently revised its approach and will be focusing on moving to a top down approach, which will improve the way in which the data will be used. The Trust will be moving away from Patient Level Information and Costing (PLICs).

We did however identify a number of high priority recommendations, which the Trust has agreed and responded to:

- The Trust should look to ensure that its current data quality issues are resolved as soon as possible to enable accurate assessments to be made for SLR purposes.
- The Trust should continue to strive towards implementing SLR in order to help within the decision making process
- The Trust should try to ensure that all stakeholders are aware of the importance of the reference cost process to encourage them to make their data as accurate as possible
- The Trust should aim to meet the minimum requirements for Level 3 Costing of the NHS Costing Manual.

5. Quality accounts

Introduction

In 2010/11 the Audit Commission mandated that we carry out work on the Trust's Quality accounts, as part of our work under section 5(1)(e) of the Audit Commission Act 1998 (the Act).

We first examined the management arrangements the Trust has in place to secure data quality. These are fundamental components that support good data quality in any organisation.

We then substantively tested two of the Trust's mandated performance indicators:

- MRSA bacteraemias
- 62 day cancer referrals

Finally, we reviewed the content of the Quality account and provided feedback.

Summary of assessment 2010/11

Management arrangements

Theme	Assessment	
Governance	●	None or only minor deficiencies
Systems and processes	●	None or only minor deficiencies
Quality accounts reporting	●	Some deficiencies

Quality indicators

Indicator	Outturn	Assessment
MRSA	●	None or only minor deficiencies
Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers	●	None or only minor deficiencies

Summary of key findings 2010/11

Management arrangements

The Trust were assessed as having sound management arrangements of the following areas:

- The Trust has a corporate framework of management and accountability for its quality account.
- The Trust has systems and processes for producing its quality account, including for securing the quality of data underpinning the account.
- The Trust has arrangements for ensuring its quality account complies with relevant DH regulations and directives.

Quality indicators

Two quality indicators were tested with the following results:

- MRSA bacteraemias, the Trust recorded five MRSA cases in the year against a target of 4 cases. Information has been produced to support the disclosure and we found no errors in recording data.
- 62 day cancer referrals, the Trust as referring 86.5% cases in the year against a target of more than 85%. Information has been produced to support the disclosure and we found no errors in recording data.

Review of Quality account

We have reviewed your Quality Account against more qualitative aspects of narrative reporting and considered whether it presents a fair and balanced view of the Trust and how it has been presented alongside your Annual Report.

Overall, your Quality Account meets the minimum requirements. We have noted the key points:

- We reviewed your Quality account against the Department of Health's Quality account toolkit 2010/11 and the Trust met the majority of reporting requirements.
- The quality account was consistent with the Statement on Internal Control.
- The Trust engaged the views of stakeholders in producing the quality account and received comment back from Hertfordshire LINKS.

Two medium priority recommendations were raised, which have been responded to by management:

- The Trust should include benchmark data within the Quality Report in order to provide a useful point of comparison for Trust performance.
- The Trust should evidence its engagement with stakeholders on the format and content of the Quality Report

Looking forward

We were not required to provide an opinion on the Trust's Quality account in 2010/11. However from 2011/12, subject to the outcome of the 2010/11 'dry-run' exercise and the requirements of the Department of Health, the Audit Commission proposes aligning the external assurance approach for NHS trusts more closely with Monitor's approach for FTs, which for 2010/11 required auditors to provide a limited assurance conclusion on the content of the quality account and report on their testing of three performance indicators.

Appendices

A. 2010/11 reports issued

Report	Date Issued
Audit Plan	December 2010
Audit Approach Memorandum	April 2011
Report to Those Charged With Governance (ISA 260)	June 2011
Financial Resilience Report	August 2011
Quality Accounts Report	July 2011
Annual Audit Letter	August 2011

B. Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Accounts	£90,000	£90,000
Value for Money conclusion	£62,000	£62,000
Quality Accounts	£15,000	£15,000
Total Code of Practice fee	£167,000	£167,000



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