



HEALTHCARE

Annual Audit Letter
2007-08

Ashford & St Peters Hospitals
NHS Trust

October 2008

AUDIT

Content

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This report is addressed to the Trust and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Greg McIntosh who is the engagement lead to the Trust, telephone 020 7311 6430 email greg.mcintosh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4063, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 0207 246 4063

Section One

Executive Summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from the work that we have carried out during 2007-08 at Ashford & St Peters Hospitals NHS Trust. Although this letter is addressed to the directors of the Trust, it is also intended to communicate those key issues 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. It is the responsibility of the Trust to publish the letter on the Trust website at www.asph.nhs.uk. Our letter highlights both areas of good performance and provides recommendations to help you improve performance. A summary of our key recommendations drawn from our reports is summarised in Appendix 1. We have reported all the issues reported in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 2.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to 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 your:

- *use of resources* - that is whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources. Our work in this area is summarised in Section 2 of this letter
- *accounts* – that is the Financial Statements and the Statement on Internal Control. This work is summarised in Section 3.

Key Messages

The key areas which we wish to draw your attention are as follows;

- You have achieved a significant in-year surplus, reflecting the delivery of a challenging programme of cost improvements and efficiency savings. Many of these are on-going and were initiated as part of your turnaround plan;
- We have been able to issue an unqualified opinion in relation to your accounts, and once again would like to emphasise the quality of the draft accounts and working papers provided to support these;
- In respect of the vfm conclusion we have issued an unqualified opinion, except for in relation to management of your asset base. This arises as a result of your estates strategy not being formally agreed and the fixed asset register not being kept up to date during the year

Future Issues

- The Trust is already giving consideration to the impacts of IFRS and we have provided a briefing session to the Finance department on the key impacts and actions required. The Trust must now ensure a robust action plan is closely monitored in preparation for IFRS, whilst ensuring that the quality of day to day financial and management accounting is not impacted upon.
- The Trust is anticipating to begin the process for its application to become a Foundation Trust this year. A significant amount of work has been completed to date to model the Trust's financial forecasts as a result of the previously planned merger with Frimley Park NHS Foundation Trust. The Trust must ensure that the issues arising from this exercise are addressed and that its financial reporting and governance processes are fit for purpose under the FT regime.

Section Two

Use of resources

The main elements of our use of resources work are:

- **Auditor's Local Evaluation (ALE)** - we assess how well you manage and use financial resources by providing scored judgements on arrangements in five areas (Financial Reporting, Financial Management, Financial Standing, Internal Control, and Value For Money). We also follow up prior year recommendations to support this conclusion.
- **Value for money conclusion** –we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. In part this is based on the ALE assessment and it is also based on the local reviews carried out.
- **Specific risk based work** - we perform local reviews based on a risk assessment of issues facing you. This year these reviews included a review of your risk management arrangements and your strategies and processes for workforce planning.

The key findings from this work are summarised below.

Element of work	Key findings												
Auditors Local Evaluation	<p>Our assessment of Ashford & St Peters Hospitals NHS Trust against the five specified areas resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1"> <thead> <tr> <th>Area</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Financial reporting</td> <td>3</td> </tr> <tr> <td>Financial management</td> <td>2</td> </tr> <tr> <td>Financial standing</td> <td>2</td> </tr> <tr> <td>Internal control</td> <td>3</td> </tr> <tr> <td>Value for money</td> <td>3</td> </tr> </tbody> </table> <p>We made a recommendation that you should develop an action plan to consider the areas where you are currently not achieving the assessment criteria, prioritising those areas that will achieve the most significant business impact, where resource does not exist to address all areas.</p>	Area	Score	Financial reporting	3	Financial management	2	Financial standing	2	Internal control	3	Value for money	3
Area	Score												
Financial reporting	3												
Financial management	2												
Financial standing	2												
Internal control	3												
Value for money	3												
Specific risk based work	<p>During the year we issued reports covering two risk areas:</p> <p><i>Title of report: Board Assurance Framework & Risk Management Arrangements</i></p> <ul style="list-style-type: none"> ● The main issues arising from this report included: the provision of quarterly updates against the BAF; a clearer link between operational and strategic risks in reporting to the Board; and greater clarity on how risk management is embedded into the Business Managers' processes and systems. <p><i>Title of report: Workforce Planning</i></p> <ul style="list-style-type: none"> ● The main issues arising from this report included: the establishment of the Workforce Strategy Group; development of a comprehensive strategic workforce plan encompassing all service areas; and sustainability of the Trust's plans for meeting the 18 week target. 												
Value for money conclusion	<p>We issued an 'except for' value for money conclusion for 2007/08. This means that we are satisfied that you put in place proper arrangements for securing economy, efficient and effectiveness in your use of resources, with the exception of the management of your asset base. Specifically, this reservation is in relation to an agreed Estates Strategy not being in place and the fixed asset register not being kept up to date during the year.</p>												

All recommendations arising from this work have already been communicated to you. A summary of the most significant recommendations, along with the Trust management's response, is provided at Appendix 1.

The Audit Commission is a signatory to the concordat between bodies inspecting, regulating and auditing healthcare. All recommendations from our use of resources work are loaded onto the concordat website at www.concordat.org.uk and an annual update of progress against these plans will be provided to the Audit Committee.

Financial statements

Audit opinion

We issued an unqualified opinion on your accounts on 20 June 2008. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. We have also confirmed that you have complied with the Department of Health requirements in the preparation of your Statement on Internal Control.

Before we give our opinion on the accounts, we are required to report to your Audit Committee any significant matters identified. We did this in our report 16 June 2008 and the key points are summarised here.

Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the Department of Health deadline supported by good quality working papers. As in previous years, responses to our audit queries were prompt and comprehensive
- We did not identify any material adjustments to the accounts. However, we identified three areas for future consideration in relation to: digital hearing aids, annual leave accruals, and transfers from assets under construction.

Financial Standing

NHS bodies are given financial targets every year. One of these, the breakeven duty, is statutory, which means you **must** achieve it. The others are administrative, which means you **should** achieve them. Your performance against the targets is outlined below:

Target name	What it means	Your performance
In-year breakeven	Keeping expenditure payable for the year within the amount of income received for the year	✓ You reported a surplus of £2.45 million
Cumulative breakeven	As above, over a five year extended period.	* Your cumulative position is a deficit of £8,197 million. You have a plan in place to recover this.
External Financing Limit	Keeping the requirement for cash financing within a limit set by the Strategic Health Authority	✓ You remained within the EFL
Capital Resource Limit	Keeping net capital expenditure within a limit set by the Strategic Health Authority	✓ You remained within the CRL by £1.181 million

As part of the Operating Framework for the NHS the capital regime was changed to bring it closer to the borrowing regime operated for NHS Foundation Trusts. You do not see any immediate affordability issues as a result of these changes

Appendix 1: Key recommendations

This appendix summarises the main (high priority) recommendations that we have identified during 2007-08, along with your response to them.

Recommendation	Management Response / Timescale for implementation
<i>Board Assurance Framework and Risk Management</i>	
<p>Quarterly reporting of the Board Assurance Framework</p> <p>We recommended that the Board review the Trust's performance in achieving its corporate objectives in a revised quarterly BAF report to the Board.</p>	<p>Agreed.</p> <p>To be implemented by 31 March 2008</p>
<p>Clear reporting of key risks to the Board</p> <p>We recommended that the Trust consider whether the BAF will provide sufficient links between the operational and strategic risks, and the changes that will be required to this framework ensure it clearly reports this.</p>	<p>Agreed.</p> <p>To be implemented by 31 March 2008</p>
<p>Identification of strategic risks and their link, if any, to operational risks</p> <p>We recommended that:</p> <ul style="list-style-type: none"> the Quality and Risk Management Strategy is explicit in its links between strategic and operational risks and the role of the Business Centre in risk management; there is a clear mechanism for filtering and consolidating bottom-up business risks to the Board; the Integrated Governance and Advisory Committee is refocused with a risk champion from each Business Centre on the committee whose role it is to share good practice and issues around further embedding risk management in the Trust. 	<p>Agreed</p> <p>To be implemented by 31 March 2008</p>
<p>Reconciliation of the BAF and the Risk Register</p> <p>We recommended that the strategic objectives and the strategic risks are reconciled to the operational risks in the Risk Register to show how effective the Trust's current risk management processes are and to identify any gaps, if any.</p>	<p>Agreed</p> <p>To be implemented by 31 March 2008</p>
<i>Workforce Planning</i>	
<p>Formation of the Workforce Strategy Group</p> <p>We recommended that the Trust establish its workforce strategy group as soon as possible, to provide leadership for achieving targets such as the 18 week wait.</p>	<p>Agreed</p> <p>To be implemented by 30 April 2008</p>
<p>Producing a workforce plan</p> <p>We recommended that the Trust develops a comprehensive strategic plan, which not only sets out the vision for the long term, but has clear targets and actions as to how the plan will be implemented, reviewed and carried forward.</p>	<p>Agreed</p> <p>To be implemented by 30 July 2008</p>

Appendix 2: Reports issued

Report	Date issued
Audit Plan	June 2006
Board Assurance Framework & Risk Management	January 2008
Workforce Planning	February 2008
Interim report	April 2008
Audit Memorandum	June 2008
Auditor Local Evaluation report	September 2008
Annual Audit Letter	October 2008