



HEALTHCARE

Annual Audit Letter 2008-09

Ashford and St Peter's
Hospitals NHS Trust

October 2009

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 June Awty who is the engagement lead to the Trust or Trevor Rees, 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. You can contact the Complaints Unit by: Phone: 0844 798 3131 [Local rate call] Email: complaints@audit-commission.gov.uk Website: www.audit-commission.gov.uk/aboutus/contactus

Textphone (minicom): 020 7630 042 Post: Complaints Unit Manager, Audit Commission
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Executive Summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008-09 audit at Ashford and St Peter's NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also 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.ashfordstpeters.nhs.uk. In the letter we highlight areas of good performance and also provide recommendations to help you improve performance. A summary of our key recommendations is summarised in Appendix 1. We have reported all the issues 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*) which requires us 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;
- *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 draw to your attention to are:

- The Trust delivered its targeted financial position in 2008/09 delivering an in year surplus of £5,513k.
- The Trust's indicative Auditor's Local Evaluation (ALE) scores have shown further improvement on the previous year. The Trust has been assessed as achieving an overall level 3 for 2008/09 (2007/08: level 2). This means that the Trust is assessed as "consistently above minimum performance, performing well".
- The Trust has been proactive in preparing for the NHS accounts conversion to International Financial Reporting Standards (IFRS) in 2009/10. From our work on the Trust's arrangements for converting its 1 April 2008 balance sheet to IFRS, we assessed that "*adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the balance sheet restatement.*"
- We issued unqualified audit opinions on the Trust's financial statements and on its value for money conclusion for 2008/09.
- Our work on the Trust's Performance Management framework identified several areas for improvement to ensure that arrangements are being consistently applied at all levels of the organisation.

Future Issues

- The Trust is forecasting a surplus for 2009/10 but to achieve this it will need to deliver a Cost Improvement Plan of £6.6m. Public expenditure forecasts will lead to significant pressure on NHS funding which the Trust will have to manage with its commissioners and continue to deliver real efficiency and productivity improvements.
- The Trust is in the process of applying for Foundation Trust status during 2009/10 and has undergone the first two assessment stages.
- Financial results for 2009/10 will be reported using IFRS. The Trust is required to re-state its 2008/09 financial statements based on IFRS and then produce its 2009/10 accounts based on IFRS during the early summer of 2010.
- Through *Saving carbon, improving health* the NHS is aiming to reduce carbon emissions by 10% by 2015. All NHS bodies will be monitored and measured on their performance in reducing emissions. For those Trusts in the Carbon Reduction Commitment scheme there will be implications for cash flow, energy bills, and investment decisions - these could be significant. There are huge opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst your corporate priorities.

Executive Summary (continued)

- The Treasury is developing guidance for 2010-2011 which will require all NHS bodies to report publicly on sustainability performance in annual reports. All reported information will be subject to audit and scrutiny..

Fees

Our audit fee for 2008/09 was £165,000 excluding VAT. Of this, £20,000 relates to a review of your Estates Strategy which has been deferred to 2009-10, and has not been billed.

In addition, we will bill £10,000 for the review of the Trust's arrangements for converting the opening balance sheet at 1 April 2008 to IFRS and the audit of the converted accounts, in line with Audit Commission guidance in the year.

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. This is based on the ALE assessment and on the local reviews carried out.
- **Specific risk based work** – we carry out specific reviews of issues facing you, based on a risk assessment. This year we undertook a review of Performance Management review to assess the corporate and operational-level processes that are in place for managing performance across the Trust.

The findings from this work are summarised below.

Element of work	Key findings												
Auditors' Local Evaluation	<p>Our assessment of Ashford and St Peter's 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>3</td> </tr> <tr> <td>Financial standing</td> <td>4</td> </tr> <tr> <td>Internal control</td> <td>3</td> </tr> <tr> <td>Value for money</td> <td>3</td> </tr> </tbody> </table> <p>The 2008/09 ALE assessment has seen the Trust build upon its 2007/08 scores. For the Internal Control, Financial Reporting and Value for Money KLOEs you maintained level threes, however improvement was noted on the prior year which helped consolidate your position. In respect of Financial Management, your score was increased from a level two to a level three, demonstrating continued improvement.</p> <p>For the Financial Standing KLOEs you improved your score from level three to level four, this was a result of the Trust's continued financial health and the achievement of the budgeted financial position in 2008/09.</p> <p>Therefore, the Trust's current overall ALE score is level 3 and this means that the Trust is assessed as "consistently above minimum performance, performing well".</p>	Area	Score	Financial reporting	3	Financial management	3	Financial standing	4	Internal control	3	Value for money	3
Area	Score												
Financial reporting	3												
Financial management	3												
Financial standing	4												
Internal control	3												
Value for money	3												
Value for money conclusion	<p>We issued an unqualified value for money conclusion for 2008/09. This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>												
Specific risk based work	<p>During the year we issued a report on the Performance Management Framework at the Trust.</p> <p>This identified that as a result of changes to the senior level staff in the organisation, there had been some slippage in the formalised performance management arrangements, particularly at an operational level. Whilst performance was being monitored and managed within directorates, this was not being done on a consistent basis. We have provided a separate report of our findings, including an action plan for targeting areas for development.</p>												

All recommendations arising from this work (with the exception of the ALE 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. We will provide an annual update of progress against all recommendations arising from our use of resources work to the Audit Committee.

Section three

Financial statements

Audit opinion

We issued an unqualified opinion on your accounts on 12 June 2009. 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 Board any significant matters identified. We did this in our report to the special Board meeting on the 08 June 2009 and the key issues are summarised here.

Accounts production and adjustments to the accounts

- We received a complete set of draft accounts in accordance with the Department of Health deadline supported by good quality working papers.
- We did not identify any amendments which impacted on the Trust's financial performance or the primary statements.
- We also identified a number of audit differences which we assessed as below trifling, and therefore the Trust's accounts were not adjusted for these differences.
- We raised four recommendations as a result of our final accounts audit work and these were reported to you through our report to those charged with governance in June 2009.

Other issues raised for the attention of the Audit Committee

- An issue we raised for the attention of the Audit Committee through the report referred to above, was the financial risk identified in respect of a land sale made in 2007/08, for which a £2.975 million debtor is included in the Trust's financial statements. Arrangements have been agreed between the Trust and the debtor, which give the Trust mortgage rights over two plots of land valued at £6m, should the debtor not honour its debt. The Trust Board confirmed that, in their view, that this debt was recoverable and that no provision for the debt was required in the accounts. On 3 July 2009, £1.5 million was paid to the Trust with the final payment being made on 1 September 2009, clearing the debt.

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 an in-year surplus of £5,513K. You had a cumulative deficit position of £2,423K as at 31/03/2009.
Cumulative breakeven	As above, over a three year period.	✓ You reported an in-year break even position over a three year period.
External Financing Limit	Keeping the requirement for cash financing within a limit set by the Strategic Health Authority	✓ You reported a break even position against the EFL.
Capital Resource Limit	Keeping net capital expenditure within a limit set by the Strategic Health Authority	✓ You remained within the CRL by £137K.

Financial statements (continued)

International Financial Reporting Standards (IFRS)

You have completed work on the balance sheet to quantify the impact of IFRS. The Trust has been proactive in discussing any material issues identified as part of this process with us. We have also reported on this work in our review on the IFRS opening balance sheet at 1 April 2008. We concluded that adequate arrangements are in place to provide correct balance sheet restatements. We have not yet completed the detailed audit work of the IFRS restated comparatives.

Future challenges

In 2009/10 the Trust must plan for a minimum 3% Cost Improvement Plan (CIP), which is applicable to all NHS organisations and equates to savings of £6.6 million. The Trust is forecasting a surplus position for the year ending 31 March 2010. However, there are a number of risks to this forecast including:

- achievement of the CIP;
- management of the introduction of the new payment by results tariff, HRG4; and
- the impact on the Trust of developments within primary care through provider separation.

In addition to this, the current economic climate may lead to further reductions in NHS funding. The Trust will have to manage this significant pressure with its commissioners and continue to deliver real efficiency and productivity improvements.

The Trust is also in the process of applying for Foundation Trust status during 2009/10, with two of the three assessment stages completed. A number of actions have been identified for the Trust to take as a result of this review, which are underway.

Appendix 1: Key recommendations

This appendix summarises the main recommendations that we have identified during 2008/09, along with your response to them.

Recommendation	Management Response / Timescale for implementation
ISA 260 – Report to Those Charged with Governance	
<p>Related Parties</p> <p>Our review of the Related Parties transactions in the accounts identified that there were material transactions with a party with whom a Non-Executive Director had declared an interest. This interest and the value of the transactions had not been disclosed within the accounts and therefore an amendment was required.</p> <p>The Trust should introduce a process to interrogate the creditors ledger to identify if there have been any transactions with bodies disclosed in the Register of Interests. This would help the Trust to ensure the accuracy and completeness of their related parties transactions disclosure.</p>	<p>Agreed</p> <p>Year end processes for 2010 will cross check interests with transactions through the creditors ledger.</p> <p>Head of Financial Services</p> <p>March 2010</p>
Interim Report	
<p>Authorisation of payroll starters, leavers and amendments</p> <p>The Trust's process for the completion of starters, leavers and amendments forms (where amendments result in a salary change) states that they should be signed by the individual's line manager, relevant HR Manager and by the member of staff in HR who enters the details on to ESR. Our testing has identified this process is not being consistently followed and that line managers, in particular, are not signing the forms. These processes need to be adhered to in order for the Trust to gain assurance that only legitimate individuals are being entered and removed from the payroll system.</p> <p>The Trust needs to ensure that its policies concerning the authorisation of starters, leavers and amendments are strictly adhered to. All staff in HR should be reminded of their responsibilities, and any forms not signed by a line manager, as required, should be returned and not entered on to the ESR system.</p>	<p>Agreed</p> <p>The Deputy Director of Human Resources will remind staff of their responsibilities with regards to unsigned forms. There are occasions when failure to action an unsigned form could result in overpayment due to returning the form for signature. HR staff have been instructed to bring any such forms to the attention of the Deputy Director of Human Resources</p> <p>Deputy Director of Human Resources</p> <p>31 August 2009</p>
<p>Pharmacy – Authorised Signatory List</p> <p>The authorised signatory list in respect of the Ascribe system in Pharmacy has not been updated since 2003. It was found that one officer on this list is no longer working in the purchasing department. Furthermore, the list itself does not contain the actual signatures of those authorised to sign.</p> <p>There is a risk that unauthorised personnel may be permitted to order goods in to the department, a risk heightened by the large volume of goods received on a daily basis. This increases the risk of fraudulent purchases and unauthorised expenditure being.</p> <p>The Pharmacy department should ensure it maintains an up to date authorised signatory list, including the relevant officers signatures and that this is shared with Finance. Any authorisation limits should also be made clear, in written format.</p>	<p>Agreed</p> <p>Chief Pharmacist</p> <p>31 August 2009</p>

Appendix 1: Key recommendations (continued)

Recommendation	Management Response / Timescale for implementation
Interim Report (cont)	
<p>IT System User Access Reviews</p> <p>Our review of user account access to the network, ESR and Oracle, identified that these are not up to date.</p> <p>In respect of the network, one user had not had his account suspended on a timely basis and that three of the twelve super-users for user accounts had left the Trust. For Oracle, 117 out of 617 users had not logged on for more than one year. Our review of ESR identified that no quarterly access reviews of the system had been undertaken since April 2008.</p> <p>Not updating access rights on a timely basis could potentially allow inappropriate staff to have system access.</p> <p>A process should be put in place to ensure members of staff have their accounts suspended on a timely basis. Regular reviews should be undertaken to ensure staff leaving the Trust have been removed</p>	<p>Agreed</p> <p>Processes have already been implemented for IT, Oracle and ESR to deal with leavers.</p> <p>Implemented</p>

We have also completed a review of the Trust’s performance management arrangements. Our recommendations raised as a result of this are currently being discussed with management, and therefore have not been included in this letter. These will be provided in a separate report.

Appendix 2: Reports issued

Report	Date issued
Audit Plan	May 2008
External Audit Progress Reports	January, April 2009
Interim Report	April 2009
ISA 260	June 2009
Performance Management Framework	August 2009
Annual Audit Letter	September 2009