Ashford and St. Peter's Hospitals NHS
NHS Foundation Trust

COUNCIL OF GOVERNORS
13th September 2011

TITLE	**Annual Audit Report December 2010- April 2011**
EXECUTIVE SUMMARY	The statutory responsibilities and powers of appointed auditors for Foundation Trusts are set out in the National Health Service Act 2006 ('the Act'). In discharging these specific statutory responsibilities and powers, they are required to carry out their work in accordance with Monitor's Audit Code for NHS Foundation Trusts (the Code) which is available from www.monitor-nhsft.gov.uk. This summarises where the responsibilities of auditors begin and end and what is expected from the trust as the audited body. Under the NHS Act 2006 the annual accounts and 'any report of the auditor on them ' must be presented to the Council of Governors at a general meeting.
The Council is asked to:	Note the Annual Audit Report for the period 1st December 2010 to 31st March 2011
Submitted by:	John Headley Director Finance and Information
Date:	23rd August 2011
Decision:	For Noting

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2010/11 Annual Audit Report to Ashford and St. Peter's Hospitals NHS Foundation Trust Board of Governors

24 August 2011

Content

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This report is addressed to the Governors of Ashford and St. Peter's NHS Foundation Trust (the Trust) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. Monitor has issued a document entitled Audit Code for NHS Foundation Trusts. 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 Ross Tudor who is the engagement lead to the Trust, telephone 020 7311 1542, or email ross.tudor@kpmg.co.uk, who will try to resolve your complaint.

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Section One

Purpose of the Annual Audit Report and scope of work

Purpose of this letter

The purpose of this Annual Audit Report is to summarise the key issues arising from our audit of Ashford and St. Peter's Hospitals NHS Foundation Trust (the Trust). We highlight areas of good performance and provide recommendations to support areas where you could improve performance. All the issues summarised in this letter have previously been reported to management and the Audit Committee, and a list of all reports we have issued is provided in Appendix A.

Although this letter is addressed to the Governors of the Trust, it is also intended to communicate key issues to relevant external stakeholders, including members of the public.

Background

The Trust was awarded Foundation Trust status on 1 December 2010. As a consequence, the Trust was required to prepare two sets of financial statements; one for the period ended 30 November 2010 and the second for the period ended 31 March 2011. We were required to audit both sets of financial statements and provide two separate audit opinions. However, we were only required to provide one report for the 12 month period in relation to work on the Quality Report.

Responsibilities of the auditor

The statutory responsibilities and powers of appointed auditors under the Audit Commission regime (for the financial statements period ended 30 November 2010) are set out in the Audit Commission Act 1998. Auditors' main responsibility is to ensure the audit meets the requirements of the *Audit Commission's Code of Audit Practice*, which is available from www.audit-commission.gov.uk.

The statutory responsibilities and powers of appointed auditors for Foundation Trusts are set out in the National Health Service Act 2006 ('the Act'). In discharging these specific statutory responsibilities and powers, we are required to carry out our work in accordance with *Monitor's Audit Code for NHS Foundation Trusts* (the Code) which is available from www.monitor-nhsft.gov.uk. This summarises where the responsibilities of auditors begin and end and what is expected from you as the audited body.

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.

The scope of our work

Under both the Audit Commission and Monitor Codes of Audit Practice we are required to review and report on:

- the **accounts** – that is the financial statements and the Statement on Internal Control.

Under the Monitor Code we were also are required to review and report on:

- the **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.

In addition, this year, we were required by Monitor to provide independent assurance on the contents of the Quality Report published by the Trust. We also undertook a dry run exercise of testing the quality of data underpinning three specified quality indicators mandated by Monitor.

This report summarises the significant issues arising from each of these areas of work.

Adding value to the External Audit Service

We have added value to our service throughout the year through:

- Attendance at meetings with members of the Executive Team to broaden our knowledge of the Trust and to provide information on sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements and quality report to ensure that our opinions are delivered on time;
- A review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement;
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide joint value for money.

Fees

Our fee for the Trust audit was £88,250 excluding VAT and the Foundation Trust audit was £47,500 excluding VAT. The Quality Accounts fee was £14,000. This was inline with the fee agreed at the start of the year with the Trust's Board.

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Section Two
Key Messages

Key messages

	Key Message
Financial Statements and Use of Resource Opinions	We issued a satisfactory (unqualified) audit opinion on the Trust's financial statements for the period ended 30 November 2010 and period ended 31 March 2011. We also concluded that the Trust had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the period ended 31 March 2011.
Statement on internal control (SIC)	We reviewed the SIC and were able to confirm that it reflected our understanding of the Trust's operations and risk management arrangements. We have also taken into consideration the work of internal audit.
Overall Financial Results	The Trust reported a surplus of £3.3 million (for the 12 month period) and delivered cost improvements amounting to £9 million. The reported position supported a Monitor financial risk rating of 4 – financial risk ratings are assessed on a scale of one to five, with five being the lowest risk.
Accounts Production and Adjustments	We received a complete set of draft accounts by the deadline set by Monitor. There were 3 unadjusted audit differences below our materiality level. These related to deferred income, accruals and historic cost depreciation adjustment in relation to buildings. There were 2 adjusted audit differences below our materiality level relating to the disclosure of audit fees and the historic cost depreciation adjustment in relation to equipment. These audit differences were discussed and approved at the Audit Committee on 2 June 2011.
Regulator Risk Ratings	The Trust's governance rating for quarter 4 of 2010/11, issued by Monitor, was Green with a strong performance against national targets. The Trust received an overall financial risk rating of 4 in 2010/11. It indicates that Monitor has no regulatory concerns about the Trust's current financial standing. The Trust has a risk rating of 3 at the end of Quarter 1 in line with their plan submitted to Monitor for 2011/12.
Mandated reviews	There were no reviews mandated by the Care Quality Commission for 2010/11.
Other work	In our audit plan for 2010/11 we identified the following risks in relation to our audit: ■ Preparing for Foundation Trust status; ■ Income from NHS Surrey; ■ Impairments; ■ Quality Accounts; and ■ Working capital facilities. We maintained continuous dialogue with Trust staff during the year to update our understanding of how the Trust responded to each of these risks. We did not identify any significant issues that impacted our conclusion on the Trust's use of resources for 2010/11.
Prudential borrowing code compliance	The Trust kept within the Prudential Borrowing Limit set by Monitor and reported compliance with the Prudential Borrowing Code ratios as disclosed within the financial statements.
Quality Accounts	The Trust achieved an unqualified assurance opinion on the content of the Quality Report. In line with the majority of Trust's we audit nationally, we concluded that the Trust needs to make some improvements to the processes for assuring the quality of data underpinning specified performance indicators. This is in readiness of the anticipated requirement for external audit to provide a formal opinion over specified performance indicators in future years.

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Appendix A
Reports issued and recommendation themes

We have recorded below a summary of the audit outputs that have been delivered as part of the 2010/11 external audit process.

In addition we have summarised the main recommendations (high and moderate) that we have identified in that period relating the financial statements and the quality report. The detail of the recommendations has been communicated to the Trust and relevant committees during the year. All recommendations were agreed with the Trust and action plans have been put in place for implementation. We will follow up progress against the recommendations made as part of our 2011/12 audit.

Report	Date issued	Number of recommendations made		
		High priority	Medium priority	Low priority
Audit Plan	Nov 2010	n/a	n/a	n/a
Audit Highlights Memorandum	June 2011	3	1	4
Quality Report	June 2011	1	2	2
		4	3	6

Financial Statement High and Medium Recommendations

Priority	Issue, Impact and Recommendation
Med	**Signatory listings** An authorised signatory listing for purchase order authorisation is not in place in Pharmacy. Furthermore, authorisation limits are not evident for the majority of officers on the accounts receivable signatory list. This creates the risk that purchase orders or invoice requisitions can be approved by individuals who should not be authorised to do so. We recommend that signatory listings are held across the Trust and updated on a regular basis to ensure starters and leavers are incorporated.
High	**Fixed asset register** Our fixed assets testing has identified that historic information pertaining to individual building assets and components has been over written within the fixed asset register. Once a building or component is revalued, the revalued amount is recorded and the historic information overwritten. The Trust is therefore unable to provide information relating to the historic cost of the asset, subsequent revaluations or calculate the historic cost depreciation adjustment. In order to account for its fixed assets under International Accounting Standards, the Trust needs all the information in relation to revaluations, depreciation and impairments to be recorded on the Fixed Asset Register. The Trust needs to undertake a detailed review of the structure and reporting of its fixed asset register to ensure that all assets and components are recorded on an asset by asset basis, with all historic information in relation to revaluations, depreciation, impairments and historic cost depreciation recorded.

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Appendix A

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Priority	Issue, Impact and Recommendation
High	**Historic cost depreciation adjustment** Our testing of the historic cost depreciation adjustment has shown there is a negative balance on the revaluation reserve in relation to equipment which indicated errors in the calculation of the adjustment. Our work has shown that the historic cost depreciation adjustment has not been calculated on an asset by asset basis; the adjustment is calculated on a global sum based on the revalued balances within the revaluation reserve. The impact of this application is that the revalued amounts for individual assets or components are not reduced by the historic cost depreciation and when the asset is disposed the full revalued amount is written out with the historic cost depreciation remaining in the revaluation reserve. Over time this has resulted in a negative balance within the revaluation reserve in relation to equipment. The Trust should review historic information in relation to equipment and allocate the historic cost depreciation balance to individual assets. Where the assets have been disposed the depreciated amount should be debited to the Income and Expenditure Account.
High	**Segmental Reporting** The Trust has not reported Operating segments, as required by International Accounting Standards. The standards require organisations to report on each 'segment' of the business, in line with the internal reporting framework used by the Trust. The Trust was unable to produce detailed information to a sufficient operational level for 2010/11 and therefore did not produce a segmental reporting note. We recommend that for 2011/12 the Trust applies International Accounting Standards and report their operating segments.

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Appendix A

Reports issued and recommendation themes

Quality Account High and Medium Recommendations

Priority	Issue, Impact and Recommendation
Med	**Quality Report timetable** Your annual complaints report had not been written at the time we completed our work. The Quality Report guidance specifically refers to the auditor review of this report but we have been able to gain our assurance from your submission to the national survey (which was not mandated) and your 2009-10 Complaints Report. The Trust should also ensure that it has a formal engagement plan in place for sharing proposed content of the Quality Report with the required stakeholders on a timely basis. This should provide them with information about what they will receive by when and also when they will need responses and in what form. You should align your Complaints Report and stakeholder review timescales to ensure that going forward this report is published within the Quality Report timescales.
High	**Completeness of 36 hour hip factures indicator** Our testing has identified a weakness in the process for ensuring the completeness of this indicator. The current process relies on the nurses responsible for compiling this indicator attending morning trauma meetings so that they can identify and record all relevant patients. We ran a monthly report from the Patient Administration System (PAS) with all fractured neck of femur clinical coding and could not reconcile back to the reported results for this indicator; there were both omissions and additions on the National Hip Fracture Database (NHFD)system compared to PAS. The current system relies on attendance at meetings and if there is non attendance by one of the two nurses responsible for compiling this indicator, this could lead to inaccuracies the KPI being reported. The Trust should consider reviewing the process and introducing alternative controls to reduce the risk of patients not being captured when the indicator is compiled. This could include reconciliations between PAS coding and the NHFD system.
Med	**Accuracy of 36 hour hip fractures indicator** Our testing has identified an inherent weakness in the process as the data is manually input into NHFD and there is no independent review or reconciliation. There is a risk that incorrect data is entered and included within the reported results. The Trust should consider whether an automated system can be designed to remove the manual input into the NHFD and therefore reduce the risk of transposition error. Or, a review of the inputs could be performed.

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