

Annual Governance Report

North Cumbria University Hospitals NHS Trust

Audit 2009/10

June 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Key messages

To Members of the Audit Committee

2009/10 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2009/10.

A draft of this report was discussed and agreed with the Director of Finance on 25 May 2010 and has been updated as queries have been concluded and issues have been resolved.

Earlier versions of this report were presented to the Audit Committee on 1 June 2010 and on 8 June 2010.

I am still considering the implications of the change in reported financial performance on my value for money conclusion and my duty under section 19 of the Audit Commission Act 1998 to make a referral to the Secretary of State. Until I have considered those implications I am unable to reach a conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit.

The report sets out the key issues that you should consider before I issue my audit opinion.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 14);
- take note of the adjustments to the financial statements that are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Trust before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Jackie Bellard
Engagement Lead

June 2010

Key messages

This report summarises the findings from my 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from error	No	7
Adequate internal control environment	Yes	11
Value for money	Results	Page
Adequate arrangements to secure value for money	O/S	14

Audit opinion

- 1 Subject to satisfactory clearance of outstanding matters, I expect to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 2 The financial statements were prepared and submitted on time. I received a full set of financial statements and supporting summary working papers in accordance with the timetable agreed with management.
- 3 I have identified errors in the financial statements and reported these to management. Management has agreed to amend the financial statements for the errors identified in Appendix 2. I have identified errors in the financial statements which management has declined to amend and these are summarised in Appendix 3.
- 4 The financial statements included an error in the breakeven note (note 39.1) that resulted in the breakeven in-year position being overstated by £530k. Management has agreed to amend note 39.1 and this reduces the breakeven in-year position from a surplus of £857k to a surplus of £327k. The breakeven cumulative position has also been amended from a deficit of £4,357k to a deficit of £4,887k.
- 5 Many of the other adjustments arise because the presentation and classification of items in the notes and disclosures was either not consistent with the underlying information, or inconsistent with the requirements of the relevant accounting standards and the NHS Manual for Accounts.

Key messages

- 6 In most cases I received prompt responses to my audit queries, although detailed supporting working papers were not readily available for some items in the notes to the accounts.

Value for money and Audit Certificate

- 7 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against 12 criteria specified by the Audit Commission. My conclusions on each of the 12 areas are set out in Appendix 5.
- 8 As a result of matters identified in the course of my audit of the financial statements, the Trust made adjustments to its draft financial statements for the year ended 31 March 2010 which led to a material change in its reported financial performance for the year.
- 9 I am considering the implications of the change in reported financial performance on:
- My conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - My duty, under section 19 of the Audit Commission Act 1998 to make a referral to the Secretary of State if I have a reason to believe that the Trust has made a decision involving unlawful expenditure or has taken unlawful action likely to cause a loss or deficiency.
- 10 Until I have considered those implications I am unable to reach a conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit.

Audit Fees

- 11 The indicative fee for the 2009/10 audit was £163,020. This consisted of £89,917 for the audit of the financial statements and £73,103 for the ALE assessment and value for money assessment.
- 12 I reported the findings from my audit of the 2008/09 IFRS restated accounts in November 2010. In this report I identified that due to the number and nature of errors and amendments arising from this work, my audit had required more resources than I had assumed when calculating the fee for 2009/10.
- 13 Additional fee has been charged to the Trust for the audit of the financial statements and the fee for the financial statements audit is now £94,486. The fee for the ALE assessment and value for money assessment has been revised to reflect a change to my risk assessment and the fee for the ALE assessment and value for money assessment is now £68,534. This has offset the increase in the audit fee for the financial statements audit so there is no overall increase in the fee.
- 14 The amendments to the fee have been discussed and agreed with the Director of Finance.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion and value for money conclusion. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

15 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 14);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors I have identified in the financial statements which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Trust before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements and statement on internal control

The Trust's financial statements and statement on internal control are important means by which the Trust accounts for its stewardship of public funds. As Directors you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the statement on internal control.

Opinion on the financial statements

- 16** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
 - 17** The financial statements included an error in the breakeven note (note 39.1) which resulted in the breakeven in-year position being overstated by £530k. Management has agreed to amend note 39.1 and this reduces the breakeven in-year position from a surplus of £857k to a surplus of £327k. The breakeven cumulative position has also been amended from a deficit of £4,357k to a deficit of £4,887k.
 - 18** The financial statements were prepared and submitted on time. I received a full set of financial statements and supporting summary working papers in accordance with the timetable agreed with management.
 - 19** In most cases I received prompt responses to my audit queries, although detailed supporting working papers were not readily available for some items in the notes to the accounts.
 - 20** The Trust has demonstrated some improvements in its arrangements for the production of the financial statements. The financial statements presented for audit were of a similar standard to those presented for audit in 2008/09 and were significantly better than the IFRS restated accounts subject to audit in October/November 2010.
 - 21** The Trust has taken a positive and constructive approach to the audit, and I would like to thank the Trust's staff for their cooperation during the audit.
-

Amendments to the financial statements

- 22** I identified errors during the course of my audit and these have been corrected by management. In addition, some presentational adjustments have been agreed with management. The adjustments arising from my audit and other adjustments agreed

with management are summarised in Appendix 2. The financial statements included an error in the breakeven note (note 39.1) which resulted in the breakeven in-year position being overstated by £530k. Management has agreed to amend note 39.1 and this reduces the breakeven in-year position from a surplus of £857k to a surplus of £327k. The breakeven cumulative position has also been amended from a deficit of £4,357k to a deficit of £4,887k.

- 23** Many of the adjustments arise because the presentation and classification of items in the notes and disclosures was either not consistent with the underlying information, or inconsistent with the requirements of the relevant accounting standards and the NHS Manual for Accounts.
- 24** There remains scope for the Trust to improve the quality assurance process for the review of the financial statements and the supporting working papers and underlying information.

Recommendations

- R1** The Trust must ensure that the financial statements and related disclosure notes are consistent with the underlying information and compliant with the requirements of the relevant accounting standards and the NHS Manual for Accounts.
- R2** The Trust should improve quality assurance processes to ensure that any errors in the financial statements and the underlying records are identified and corrected prior to the accounts being submitted for audit.

Unadjusted Errors in the financial statements

- 25** I identified errors and uncertainties during the course of my audit which management has declined to amend. All the unadjusted errors and uncertainties are summarised in Appendix 3. If these errors were to be amended the retained deficit for the year would be reduced by £248k. After adjusting for impairments, the in-year statutory breakeven surplus would be increased by £60k.

Breakeven position (Note 39.1)

- 26** The Department of Health requires that the statutory breakeven position is calculated by excluding the impact of bringing the PFI scheme onto the balance sheet and excluding the impact of impairments. The Trust had made the correct adjustments to exclude the impact of the impairments.
- 27** The breakeven calculation incorrectly included £530k which related to a reduction in the depreciation charge for the PFI scheme on balance sheet. This amount should have been excluded from the calculation of the breakeven position and as a result the breakeven in-year position was overstated by £530k.
- 28** Management has agreed to amend note 39.1 and this reduces the breakeven in-year position from a surplus of £857k to a surplus of £327k. The breakeven cumulative position has also been amended from a deficit of £4,357k to a deficit of £4,887k.

Accounting for Property, Plant and Equipment

Asset Register

- 29** There was no reconciliation to agree the movements and analysis of Property, Plant and Equipment (PPE) in note 17, to the general ledger and the asset register. This working paper was not provided until the third week of the audit, indicating weaknesses in the reconciliation procedure.
- 30** The Trust implemented a new asset register in 2009 and this, together with the adjustments required to reflect the MEA valuation as at 1 April 2010, has increased the complexity of the accounting required for PPE.
- 31** The new asset register has the functionality to interface directly with the general ledger. I understand that the Trust chose not to fully use this functionality in 2009/10 due to the significant number of complex adjustments required to reflect the MEA valuation.
- 32** This meant that the asset accounting for 2009/10 has been undertaken via a number of spreadsheets and complex journal adjustments which increases the risk of error and results in a difficult audit trail. As a consequence, the audit of PPE has been time consuming and complex.
- 33** My testing has concluded that the asset accounting entries and balances are materially correct, although there are some small errors that will be corrected by management in 2010/11.

Recommendations

- R3** The Trust should ensure that the finance team has access to adequate support and training to fully utilise the functionality and reporting facilities of the new asset register.
- R4** The Trust should ensure that all PPE movements and balances are fully reconciled between the asset register, the general ledger and the financial statements.

Valuation Report

- 34** My audit includes testing to verify the physical existence of assets. This testing identified inconsistencies between the valuation report and the physical state of three assets at the West Cumberland Hospital site. Further investigation and correspondence between the Trust and the valuer has identified that there are errors in the valuation report as at 31 March 2010.
- 35** These errors result in the value of PPE being misstated. One asset has been recorded in the accounts with a value of £51k where the valuer now states this should be valued at £639k. Two other assets are included in the accounts with values of £23k and £551k where the valuer now states that both these assets should be valued at nil. There is therefore a net understated of asset values of £14k which will be corrected by management in 2010/11.

Accounting for asset enhancements

- 36** Enhancements made to existing assets in 2009/10 were brought onto the asset register as new assets rather than being added to the existing asset valuation. The value of assets brought onto the register in this way was approximately £1,420k.
- 37** Following the year end revaluation these enhancements were all impaired to zero as their value was deemed to be included in the year end valuation of the relevant assets. This impairment was charged directly to the Statement of Comprehensive Income (SOCl) without any consideration of whether the asset on which the works were carried out had any available revaluation reserve.
- 38** As a result, the charge to the SOCl may be overstated with a corresponding overstatement of the year-end balance on the revaluation reserve. No attempt has been made to quantify the impact of this approach, however any potential error would be less than £1,420k and would not impact on the statutory break-even position of the Trust.

Recommendation

- R5** Enhancements to existing assets should be recognised as additions to the relevant existing assets to ensure that depreciation, impairment and revaluations can be accounted for correctly.

Accounting implications of the West Cumberland Hospital Development

- 39** The remaining useful economic lives of assets relating to the West Cumberland Hospital have not been adjusted to reflect the Trust's intended redevelopment of the site. It is management's view that the intended useful lives of the assets should not be adjusted until the Full Business Case and funding for the West Cumberland Development has been approved.
- 40** IAS 16 requires that an asset's useful economic life and residual value is reviewed at least annually. IAS16 defines the useful life of an asset in terms of the asset's expected utility to the entity.
- 41** The value in use and the remaining economic lives of the assets relating to the West Cumberland Hospital must be revised at the point where management makes a decision to demolish the assets. The value in use should be reviewed and the carrying values of the assets should be depreciated to nil over the period the buildings remains in use.

Recommendation

- R6** The Trust should ensure that financial plans reflect the expected changes to asset lives and depreciation charges in the relevant accounting periods.

Financial statements and statement on internal control

PFI Re-Financing

- 42** The Trust's PFI scheme was re-financed on 26 March 2010 and a new service contract agreed with the PFI provider. I understand that management were assuming that the PFI refinancing would not have a material impact on the 2009/10 financial statements. However, there was no evidence that management had undertaken a full assessment of the potential impact of the re-financing and revised service contract on the 2009/10 financial statements.
- 43** Management have now undertaken an assessment of the potential impact of the re-financing and revised service contract on the 2009/10 financial statements. I have considered the potential impact of the PFI re-financing on the PFI transactions and liabilities reflected in the financial statements. Based on the evidence provided by the Trust, I have concluded that the amounts in the financial statements are not materially mis-stated.
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Material weaknesses in internal control

- 44** I have highlighted issues in respect of asset accounting in paragraphs 17 to 21. Other than these matters, I have not identified weaknesses in the design or operation of internal controls that might result in a material error in your financial statements. I report only those matters that have come to my attention because of the audit procedures I have performed. My audit is not designed to identify all matters that might be relevant to you.
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Letter of representation

- 45** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from you.
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Key areas of judgement and audit risk

- 46** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.
-

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
The Trust has commenced a significant capital project at the West Cumberland Hospital which includes demolition of existing assets. There is a risk that asset values and remaining lives for the existing	The remaining useful economic lives of assets relating to the West Cumberland Hospital have not been adjusted to reflect the Trust's intended redevelopment of the site. It is management's view that the intended useful lives of the assets should not be adjusted until the Full Business

Issue or risk	Finding
assets are not updated to properly reflect the implications of the development	Case and funding for the West Cumberland Development has been approved. The Trust will need to ensure that financial planning includes scenarios to assess the impact of this development on future financial plans.
The Trust faces a number of financial challenges in 2009/10 which will increase the risk of the Trust not meeting its financial targets.	The Trust has a financial recovery plan, tied to a loan agreement, which requires the Trust to deliver a minimum surplus of £860k each year. In 2009/10 the Trust delivered a surplus of £327k. This means that the Trust has not delivered the agreed recovery plan for the year.
The Trust has a large PFI scheme which is likely to be re-financed before the end of the financial year.	I have considered the potential impact of the PFI re-financing on the PFI transactions and liabilities reflected in the financial statements. Based on the evidence provided by the Trust, I have concluded that the amounts in the financial statements are not materially mis-stated.
The Trust continues to be involved with a significant number of high profile equal pay claims.	I have reviewed the information available in respect of the equal pay claims. I have concluded that, based on the information available, it remains appropriate to account for these claims as contingencies.

Accounting practice and financial reporting

47 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
The introduction of IFRS accounting and a revised format for the financial statements in 2009/10 is a major change and increases the risk or error in the financial statements.	Amendments have been made to the financial statements because the presentation and classification of some items in the notes and disclosures was either not consistent with the underlying information, or inconsistent with the requirements of the relevant accounting standards and the NHS Manual for Accounts.

Financial statements and statement on internal control

Issue or risk	Finding
I identified some weaknesses in your asset register in 2008/09 which suggested that it was not complete and accurate.	<p>My testing of asset balances and transactions has concluded that the asset register is materially complete and accurate. A number of small errors have been identified and these will be corrected by Management in 2010/11.</p> <p>In 2008/09 I recommended that the Trust should commence a programme of physical verification of IT assets. The finance team has commenced this exercise, working with the IT department, and a verification programme is in place for 2010/11.</p>
As part of my audit procedures I review and test a sample of journals during the year and at the year end to assess whether journal adjustments are appropriate.	As reported in 2008/09, my review of journals has identified that authorisation controls are not operating in all circumstances. Review of journal files identifies that a number of journals continue to be input and authorised by the same person.
My audit procedures include testing of capital additions to ensure that amounts are correctly treated and appropriate capitalised in accordance with the accounting policies.	Testing of capital additions has identified IT assets with a purchase value of less than £5k that have been capitalised on the grounds that they are grouped assets, despite them being bought at various times throughout the year. This approach to capitalisation is not consistent with the Trust's stated accounting policy. Review of capital additions indicates that the value of such additions is approximately £44k.

Recommendations

- R7** The Trust should ensure that the planned programme of asset verifications is undertaken and that all categories of asset are included as part of an ongoing programme.
- R8** The Trust should ensure that all journals are input and authorised by different members of staff.
- R9** The Trust should ensure that the capitalisation of IT assets is consistent with the accounting policies.

Value for money

I am required to conclude whether the Trust put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. My conclusion is informed by my work on the scored Auditors' Local Evaluation.

Value for money conclusion

- 48** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against 12 criteria specified by the Audit Commission. My conclusions on each of the 12 areas are set out in Appendix 5.
- 49** As a result of matters identified in the course of my audit of the financial statements, the Trust made adjustments to its draft financial statements for the year ended 31 March 2010 which led to a material change in its reported financial performance for the year.
- 50** I am considering the implications of the change in reported financial performance on:
- My conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - My duty, under section 19 of the Audit Commission Act 1998 to make a referral to the Secretary of State if I have a reason to believe that the Trust has made a decision involving unlawful expenditure or has taken unlawful action likely to cause a loss or deficiency.
- 51** Until I have considered those implications I am unable to reach a conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit.

Appendix 1 – Independent auditor’s report to the Board of Directors of North Cumbria University Hospitals NHS Trust

Independent auditor’s report to the Board of Directors of North Cumbria University Hospitals NHS Trust

Opinion on the financial statements

I have audited the financial statements of North Cumbria University Hospitals NHS Trust for the year ended 31 March 2010 under the Audit Commission Act 1998. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers’ Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service set out within them.

I have also audited the information in the Remuneration Report that is subject to audit, being:

- the table of salaries and allowances of senior managers and related narrative notes on page 41, and
- the table of pension benefits of senior managers and related narrative notes on page 42.

This report is made solely to the Board of Directors of North Cumbria University Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of directors and auditor

The directors’ responsibilities for preparing the financial statements in accordance with directions made by the Secretary of State are set out in the Statement of Directors’ Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). I report to you my opinion as to whether the financial statements give a true and fair view in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. I report whether the financial statements and the part of the Remuneration Report subject to audit have been properly

Appendix 1 – Independent auditor’s report to the Board of Directors of North Cumbria University Hospitals NHS Trust

prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Operating and Financial Review, included in the Annual Report, is consistent with the financial statements. I am not required to consider, nor have I considered, information regarding future projections included within the annual report.

I review whether the directors' Statement on Internal Control reflects compliance with the Department of Health's requirements, set out in 'Guidance on Completing the Statement on Internal Control 2009/10' issued in February 2010. I report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the directors' Statement on Internal Control covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's welcome, the Chief Executive's report, the unaudited part of the Remuneration Report, the other elements of the Operating and Financial Review and the remaining elements of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report subject to audit. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error; and
- the financial statements and the part of the Remuneration Report subject to audit have been properly prepared.

In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report subject to audit.

Appendix 1 – Independent auditor’s report to the Board of Directors of North Cumbria University Hospitals NHS Trust

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust’s affairs as at 31 March 2010 and of its income and expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report subject to audit have been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England; and
- information which comprises the commentary on the financial performance included within the Operating and Financial Review, included within the Annual Report, is consistent with the financial statements.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources and audit certificate

As a result of matters identified in the course of my audit of the financial statements, the Trust made adjustments to its draft financial statements for the year ended 31 March 2010 which led to a material change in its reported financial performance for the year.

I am considering the implications of the change in reported financial performance on:

- My conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in the use of resources;
- My duty, under section 19 of the Audit Commission Act 1998 to make a referral to the Secretary of State if I have a reason to believe that the Trust has made a decision involving unlawful expenditure or has taken unlawful action likely to cause a loss or deficiency.

Until I have considered those implications I am unable to reach a conclusion on the Trust’s arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit.

Jackie Bellard

Engagement Lead

Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

X June 2010

Appendix 2 – Amendments to the financial statements

I identified errors during the course of my audit and these have been corrected by management. In addition, some presentational adjustments have been agreed with management. The following table summarises the nature of these amendments. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3 Amendments to the financial statements

Statement or note	Nature of Amendment	Statement of Comprehensive Income (SOI)		Statement of Financial Position (SOFP)	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
All statements and notes	A number of amendments have been agreed to improve the presentation and internal consistency of the financial statements and associated notes.	-	-	-	-
SOI	The draft accounts submitted for audit included an arithmetic error which meant that the total comprehensive income was incorrectly stated as £13,847k when the total should have been £26,167k. This error did not impact on any other element of the financial statements. The SOI has been amended to include the correct total.	-	-	-	-
SOI	The SOI did not follow the template statement in the NHS Manual for Accounts. This was because management wished to highlight the value of impairments in a separate line. Amendments to the format of the SOI have been agreed so this now follows the NHS Manual for Accounts and value of impairments have been disclosed in a note at the foot of the SOI.	-	-	-	-

Appendix 2 – Amendments to the financial statements

Statement or note	Nature of Amendment	Statement of Comprehensive Income (SOI)		Statement of Financial Position (SOFP)	
SOI Note 6 Note 8	An error was identified in note 6 and note 8 to the SOI due to an adjustment being incorrectly applied. Other Operating Revenue in the SOI and note 6 was understated by £36k. Operating expenses in the SOI and note 8 were understated by the same amount. An amendment has been made to correct this error.	36	36	-	-
SOFP PFI Liability Note 28	Current and non-current borrowings on the SOFP are analysed in note 28. The overall PFI liability is correctly stated, however the split between current and non-current element of the liability was incorrectly stated. Note 28 and the SOFP have been amended to correctly analyse the PFI liability between current and non-current borrowings. The prior year figures have also been amended.	-	-	523	523
Cash flow statement	An error was identified in the Cash flow statement due to the dividend paid figure being understated by 495k and the decrease in debtors figure being understated by £495k. The cash flow statement has been amended to correct this.	-	-	-	-
Operating Expenses Note 8 (Audit Fees)	I have agreed with management that all audit fees in 2009/10 should be included in one line in note 8 as 'audit fees'. This is because all audit fees charged in 2009/10 relate to statutory audit work rather than additional services.	-	-	-	-

Appendix 2 – Amendments to the financial statements

Statement or note	Nature of Amendment	Statement of Comprehensive Income (SOI)		Statement of Financial Position (SOFP)	
Employee costs and numbers Note 10.2 Note 10.3	<p>The average number of medical and dental employees in note 10.2 was incorrectly split between permanently employed and other. The number of permanent employees was understated by 62 and other was overstated by the same amount. Note 10.2 has been corrected.</p> <p>Amendments have been made to the disclosures in note 10.3 (Staff sickness absence) due to changes in the guidance from the Department of Health:</p> <ul style="list-style-type: none"> • Prior year comparatives have been removed • All days lost are classed as short term • Total days lost has been amended to 35,668 • Total staff years has been amended to 3,071 • Average working days lost has been amended to 11.3 	-	-	-	-
Ill health retirements Note 12	<p>Retirements due to ill health in note 12 were incorrectly disclosed as 1 early retirement at a cost of £212k. Note 12 has been amended to correctly include 3 ill health retirements as a cost of £111k</p>	-	-	-	-
Property, plant and equipment (PPE) Note 17	<p>The Trust has made adjustments to the asset lives of PPE, resulting in extended asset lives. International Accounting Standard (IAS) 16 requires that the financial effect of changes to the asset lives is disclosed. Note 17 has been amended to include this disclosure.</p>	-	-	-	-
Impairments Note 19	<p>Note 19 included only details of the impairments charged to the SOI in 2009/10. The NHS Manual for Accounts requires disclosure of all impairments that have been charged either to the revaluation reserve or to the SOI. Note 19 has been amended to include disclosure of all impairments.</p> <p>Amendments have also been agreed to reduce the level of detail presented in this note.</p>	-	-	-	-

Appendix 2 – Amendments to the financial statements

Statement or note	Nature of Amendment	Statement of Comprehensive Income (SOI)		Statement of Financial Position (SOFP)	
Receivables Note 22	<p>The split between current NHS receivables (revenue) and current non-NHS receivables (revenue) was incorrect. £52k has been moved from NHS to non-NHS to correct this.</p> <p>The VAT debtor of £505k had been incorrectly included within 'other receivables' rather than being disclosed as VAT receivable as required by the note. This has now been amended and the VAT debtor is correctly identified.</p> <p>The allocation of the provision for the impairment of receivables was not consistent with the basis of the calculation of the provision. An amendment has been agreed to allocate the provision between current and non-current receivables on the same basis as the calculation of the provision.</p> <p>Errors were identified in the analysis of receivables past their due date but not impaired. The analysis in this note and total balance outstanding have been amended as follows:</p> <p>Up to 3 months balance has been increased from £680k to £730k</p> <p>The 3 to 6 months balance has been reduced from £492k to £383k</p> <p>The more than 6 months balance has been reduced from £1,086k to £618k</p>	-	-	-	-
Payables Note 27	<p>The analysis of payables in note 27 included a number of errors due to payables being mis-classified. The analysis in note 27 has been amended to correctly classify payables as required by the note.</p>	-	-	-	-
Financial Instruments Note 37	<p>Amendments have been made to note 37 to reclassify receivables from 'other financial assets' to 'receivables' and to include some receivables which had not been included in this note.</p> <p>Additional disclosure has been added, as required by the NHS Manual for Accounts, to disclose the difference between the fair value and the book value of the Department of Health Loan.</p>	-	-	-	-

Appendix 2 – Amendments to the financial statements

Statement or note	Nature of Amendment	Statement of Comprehensive Income (SOI)		Statement of Financial Position (SFP)	
Breakeven Performance Note 39.1	<p>The breakeven calculation incorrectly included £530k which related to a reduction in the depreciation charge for the PFI scheme on balance sheet. This amount should have been excluded from the calculation of the breakeven position and as a result the breakeven in-year position was overstated by £530k. Management has agreed to amend note 39.1 and this reduces the breakeven in-year position from a surplus of £857k to a surplus of £327k. The breakeven cumulative position has also been amended from a deficit of £4,357k to a deficit of £4,887k.</p> <p>In the draft accounts submitted for audit, impairments of £4,992k were missing from this note, resulting in the in-year and cumulative breakeven position being mis-stated. Note 39.1 has been amended to include these impairments and the breakeven note is now correctly stated.</p> <p>The break even note has also been amended to disclose the agreement that the Trust has with the SHA in respect of the recovery period and the period over which breakeven must be achieved.</p>	530	-	-	-
Intra-government balances Note 42	Amendments have been made to this note as the original note did not include all intra-government balances.	-	-	-	-
Total amendments		566	36	523	523

Appendix 3 – Unadjusted misstatements in the financial statements

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to amend the financial statements for these errors, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 4 Unadjusted misstatements

Statement or note	Nature of misstatement	Statement of Comprehensive Income (SOI)		Statement of Financial Position (SOFP)	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
SOI and SOFP Impairments Note 19	Impairments of £174k have been charged to the SOI rather than to the revaluation reserve. As a result the impairments charged to the SOI as operating expenses are overstated by £174k and the revaluation reserve is overstated by £174. This error does not impact on the statutory breakeven position.	-	174	174	-
SOI SOFP PFI accounting entries	When updating the PFI model to reflect the actual unitary charge in 2009/10, a reduction of £1,062k was made to the contingent rents figure in the model. In our view this reduction, which represents the difference between projected figures in the model and the actual charge in 2009/10, should have been allocated over operating costs, lifecycle enhancements and contingent rentals. I understand from management that the model does not allow this allocation to be readily calculated but that a solution is being sought for future years. The result of this approach is that costs may be mis-allocated between operating expenses and finance costs in the SOI, although the amounts involved are not material. I have not quantified the impact on these lines of the SOI but there is no effect on the overall amount charged to the SOI, the deficit for the year or the breakeven position.	-	-	-	-

Appendix 3 – Unadjusted misstatements in the financial statements

Statement or note	Nature of misstatement	Statement of Comprehensive Income (SOI)		Statement of Financial Position (SOFP)	
SOFP Finance lease obligations Note 30 Borrowings Note 28	Errors have been identified in note 30. There are some errors in the allocation of liabilities between years and the total present value of minimum lease payments is understated by £25k, both at 31 March 2009 and 31 March 2010. The non-current finance lease liabilities in note 28 are understated by £25k and total non-current borrowing on the SOFP is understated by £25k.	-	-	25	25
SOI SOFP Payables Note 27	Audit testing identified an accrual of £60k within non-NHS trade payables (capital) which was not eligible for inclusion as a payable. This was because the expenditure has already been recognised in 2009/10. Operating expenditure and payables are both overstated by £60k	-	60	60	-
SOI SOFP Note 17	Audit testing to physically verify the existence of assets identified errors in the valuation report. There is a net understatement of asset values of £14k which will be corrected by management in 2010/11.	-	14	14	-
SOFP Provisions Note 35	Provisions in the SOFP and note 35 have all been classified as non-current provisions with the expected timing of cash flows being after 1 April 2011. The nature of some of these provisions indicates that some of these amounts are likely to be utilised within the next 12 months and therefore should be classed as current provisions. No amendment has been made to the SOFP and note 35, however the amounts involved are not material.				
Total value of misstatements		-	248	273	25

Appendix 4 – Draft letter of representation

Jackie Bellard
Engagement Lead
Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

North Cumbria University Hospitals NHS Trust - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors of North Cumbria University Hospitals NHS Trust, the following representations given to you in connection with your audit of the Trust's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the NHS Manual for Accounts and International Financial Reporting Standards which give a true and fair view of the financial position and financial performance of the Trust and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Trust and the reasons for not correcting these items are as follows;

reason 1 etc;

reason 2

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Trust have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Board meetings, have been made available to you.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures, if any, relating to going concern.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Trust.

The Trust has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the valuation of non-current assets and recognition of assets and liabilities in respect of the PFI scheme, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Appendix 4 – Draft letter of representation

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Events after the reporting period

Since the date of approval of the financial statements by the Board, no additional significant events after the reporting period have occurred that would require additional adjustment or disclosure in the financial statements.

The Trust has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Segmental Reporting

I have reviewed the operating segments reported internally to the Board and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- the nature of the products and services;
- the nature of the production processes;
- the type of class of customer for their products and services;
- the methods used to distribute their products or provide their services; and

- the nature of the regulatory environment.

Please provide further information to support the reasons for this conclusion.

Specific representations

Please confirm management’s view that the re-financing of the PFI scheme that took place on 26 March 2010, has no material impact on the future liabilities recognised in the financial statements.

Please confirm management’s view that the remaining asset lives for non-current assets relating to the West Cumberland Hospital, reflect the current expected utility of the assets to the Trust in accordance with IAS16.

Please confirm that the Trust has no capital commitments as at 31 March 2010. Specifically, please confirm that there are no capital commitments as at 31 March 2010 in respect of the development of the West Cumberland Hospital.

Please confirm management’s view that staff costs capitalised as part of the West Cumberland development are consistent with the requirements of IAS16 and the NHS Manual for Accounts.

Please confirm management’s view that it remains appropriate to account for potential liabilities relating to Equal Value claims as contingencies and that sufficient provision has been made in the financial statements where this is required.

Signed on behalf of North Cumbria University Hospitals NHS Trust

I confirm that this letter has been discussed and agreed by the Audit Committee and the Board on 1 June 2010.

Signed

Name

Position

Date

Appendix 5 – Value for money criteria

Code Criterion		Linked ALE KLoE	Met
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	5.1 Strategic and operational objectives	Yes
2	The body has put in place channels of communication with patients and their representatives and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	5.2 Meeting the needs of taxpayers and stakeholders	Yes
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to the board.	5.3 Monitoring and reviewing performance	Yes
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to board members.	5.3 Monitoring and reviewing performance	Yes
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2 Maintaining internal control	Yes
6	The body has put in place arrangements to manage its significant business risks.	4.1 Business risks	Yes
7	The body has put in place arrangements to manage and improve value for money.	5.4 Managing financial and other resources	Yes
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1 Sounds planning and strategic links	o/s
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1 Financial standing	o/s
10	The body has put in place arrangements for managing performance against budgets.	2.2 Managing against budgets	Yes

Appendix 5 – Value for money criteria

Code Criterion		Linked ALE KLoE	Met
11	The body has put in place arrangements for the management of its asset base (only application to organisations with a significant asset based).	2.3 Managing the asset base	Yes
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3 Conduct of the business	Yes

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R1 The Trust must ensure that the financial statements and related disclosure notes are consistent with the underlying information and compliant with the requirements of the relevant accounting standards and the NHS Manual for Accounts.	3	Assistant Director of Finance (Financial Services)	Yes	Finance is to introduce quarterly accounting to help develop year-end accounting skills.	April 2011
9	R2 The Trust should improve quality assurance processes to ensure that any errors in the financial statements and the underlying records are identified and corrected prior to the accounts being submitted for audit.	3	Director of Finance	Yes	As per the above, planned deadlines need to be enforced to ensure there is sufficient time for review.	April 2011
10	R3 The Trust should ensure that the finance team has access to adequate support and training to fully utilise the functionality and reporting facilities of the new asset register.	3	Assistant Director of Finance (Financial Services)	Yes	A review of the new asset register will take place in year to review its full functionality.	September 2010
10	R4 The Trust should ensure that all PPE movements and balances are fully reconciled between the asset register, the general ledger and the financial statements.	3	Assistant Director of Finance (Financial Services)	Yes	Reconciliation procedures will be reviewed.	September 2010
11	R5 Enhancements to existing assets should be recognised as additions to the relevant existing assets to ensure that depreciation, impairment and revaluations can be accounted for correctly.	3	Assistant Director of Finance (Financial	Yes	The procedure for recognising assets will be amended.	September 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
			Services)			
11	R6 The Trust should ensure that financial plans reflect the expected changes to asset lives and depreciation charges in the relevant accounting periods.	3	Associate Director of Finance	Yes	The plans will reflect changes to asset lives, particularly around the WCH development.	September 2010
14	R7 The Trust should ensure that the planned programme of asset verifications is undertaken and that all categories of asset are included as part of an ongoing programme.	3	Assistant Director of Finance (Financial Services)	Yes	An ongoing programme commenced in 2009/10 and will continue throughout the year.	April 2011
14	R8 The Trust should ensure that all journals are input and authorised by different members of staff.	2	Associate Director of Finance	Yes	Already being actioned.	June 2010
14	R9 The Trust should ensure that the capitalisation of IT assets is consistent with the accounting policies.	2	Assistant Director of Finance (Financial Services)	Yes	To be reviewed in line with the policy.	July 2010