

Annual Audit Letter

North Cumbria University Hospitals NHS Trust

Audit 2008/09

October 2009



Contents

Key messages	3
Financial statements and statement on internal control	5
Use of resources	6
International Financial Reporting Standards	8
Closing remarks	9
Appendix 1 – ALE key findings and conclusions	10

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.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the 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.

Audit opinion

- 1 I issued an unqualified opinion on the Trust's accounts on 11 June 2009, before the deadline set by the Department of Health. In my opinion the accounts give a true and fair view of the Trust's financial affairs at the end of the year and of its income and expenditure during the year.
 - 2 Before giving my opinion I reported to those charged with governance, the Audit Committee, on the issues arising from the audit of the 2008/09 accounts. This report was presented to the Audit Committee on 9 June 2009.
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Financial Statements

- 3 The financial statements were prepared, approved and submitted on time. We received a full set of financial statements and supporting working papers in accordance with the timetable agreed with management. The Trust has demonstrated a clear improvement in its arrangements for the production of the financial statements and supporting working papers. My audit team received prompt responses to audit queries and Trust staff have taken a positive and constructive approach to the audit.
 - 4 I identified some errors during the course of my audit and most of these were corrected by management. Many of these adjustments arose because items were mis-classified in the notes to the accounts, or because the Trust did not comply with the requirements of the NHS Manual for Accounts when compiling the notes and disclosures.
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Use of resources

- 5 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against 12 criteria specified by the Audit Commission. I concluded that, in all significant respects, North Cumbria University Hospitals NHS Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
 - 6 The Trust demonstrated improvements in all areas of the scored ALE assessment, maintaining or improving scores in every KLOE, and this is reflected in some increased theme scores. In particular, the Trust improved the financial reporting score from a level 1 in 2007/08 to level 2 in 2008/09, and the internal control score has improved from a level 2 to a level 3.
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Table 1 **Audit fees**

	Fee £'s
Financial Statements	79,800
Value for money work (VFM conclusion and ALE)	72,200
Audit Fees	152,000
IFRS Arrangements	10,000
Total Fees	162,000

Independence

- 7 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and statement on internal control

The Trust's financial statements and statement on internal control are an important means by which the Trust accounts for its stewardship of public funds.

Significant issues arising from the audit

- 8 My work did not identify any significant issues arising from the audit.
 - 9 My audit planning identified a number of areas of judgement and audit risk in relation to the management of fixed assets, the use of deferred income from Cumbria PCT, a tight deadline for accounts preparation and compliance with the Manual for Accounts. I considered these areas as part of my audit and was able to gain sufficient assurance in respect of each of the issues.
 - 10 I identified a number of non-trivial errors in the financial statements which management declined to amend and I reported these to the Audit Committee on 9 June 2009. The net impact of amending for these items would have been to reduce the Trust's reported surplus by £147,000
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Material weaknesses in internal control

- 11 I did not identify any significant weaknesses in your internal control arrangements.
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Accounting practice and financial reporting

- 12 I considered the qualitative aspects of your financial reporting and reported in my Annual Governance Report that the financial statements and draft annual report did not comply with the requirements of the manual for accounts.

Use of resources

I considered how well the Trust is managing and using its resources to deliver value for money and gave a scored Auditors Local Evaluation (ALE) judgement.

I also assessed 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 (VFM) conclusion.

ALE judgements

- 13 In forming my scored ALE judgements, I have used the methodology set out in the 'ALE for Trusts' guidance. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 14 I have also taken into account, where appropriate, findings from previous ALE assessments (updating these for any changes or improvements) and any other relevant audit work.
- 15 The Trust's ALE scores for the five key areas are shown in Table 1 below. The key findings and conclusions for the five areas, and the underlying KLOE, are summarised in Appendix 1.

Table 2 **ALE scores**

Key area	Scored judgement
Financial reporting	2
Financial management	2
Financial standing	2
Internal control	3
Value for money	2

- 16 The Trust demonstrated improvements in all areas of the scored ALE assessment, maintaining or improving scores in every KLOE, and this is reflected in some increased theme scores. In particular, the Trust improved the financial reporting score from a level 1 in 2007/08 to level 2 in 2008/09, and the internal control score has improved from a level 2 to a level 3.
- 17 An important aspect of the assessment, which is qualitative in nature, is that to score 3 or above, all or virtually all of the arrangements described at level 2 and 3 should be embedded and operating effectively with clear outcomes. This is a more demanding test than for level 2 which simply requires arrangements to be in place.

Use of resources

- 18 The Trust demonstrated improvements in all areas of the ALE assessment but these improvements are not necessarily reflected in increased scores as arrangements are not yet embedded. It is important that the Trust continues to sustain improvements across the organisation to enable the Trust to demonstrate improved outcomes in all key areas.
- 19 Detailed scores for each theme, including areas for improvement can be found in Appendix 1.

VFM conclusion

- 20 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are set out in Appendix 1.
- 21 I issued an unqualified conclusion stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Review of Strategic Commissioning

- 22 The Audit Commission undertook a review of strategic commissioning in Cumbria, looking at both partnership and programme management arrangements, including governance and risk management, as well as individual organisational plans and their interrelationship to the 'Closer to Home' programme for community projects. The detailed report was issued to the Chief Executive on 5 August and presented to the Audit Committee on 16 September 2009.
- 23 The review concluded that there is clear commitment and leadership from all partners to improve the health of local people and the quality of services they receive. NCUHT is fully supportive of 'Closer to Home' and this is reflected in service development strategies. Formal partnership governance arrangements for 'Closer to Home' in the North are now in place and the management arrangements for the community projects viewed to-date are effective.
- 24 Within the scope of 'Closer to Home', there is a planned shift in the focus of care from an acute hospital setting into the community, where it is appropriate for patients to be treated locally. The programme therefore requires a coordinated and managed change in the workload of partners, along with the development of community based and social care services. Whilst there is a clear commitment to delivering the 'Closer to Home' agenda there were, understandably, tensions between the partners given the uncertainties and likely impact of a shift in services from the acute sector to community based services.
- 25 Evaluation and benefits realisation arrangements are not finalised. The PCT has set out six criteria for assessing and analysing the planned changes to the services in North Cumbria. However, the PCT has subsequently agreed with the County Council's Overview and Scrutiny Committee to develop 'touchstones' for Cumbria, and the PCT is also discussing with academic partners a large scale evaluation of Closer to Home. Until the work for these two initiatives is agreed, there is a risk that the PCT and partners are unable to demonstrate the wider benefits of Closer to Home.

International Financial Reporting Standards

The Treasury's 2008 budget statement announced that annual financial statements of government departments and other public sector bodies, including the NHS, will be prepared using International Financial Reporting Standards (IFRS) from 2009/10. The Department of Health (DH) requires NHS bodies to restate their 2008/09 accounts (prepared using manuals based on UK GAAP) in IFRS format.

IFRS

- 26 All NHS bodies were required to submit to the Department of Health (DH) their 1 April 2008 balance sheet restated in IFRS format by 31 December 2008. DH guidance required that all information arising from the restatement was subject to review by auditors.
- 27 I have assessed the arrangements at North Cumbria University Hospitals NHS Trust using the Commission's approach agreed following discussion with the DH and the National Audit Office (NAO).
- 28 I concluded that the Trust has adequate arrangements to provide materially accurate amounts for the balance sheet restatement in most areas. There are some risks associated with the transition to IFRS due to the inherent risk and high value of the PFI scheme. There is also some uncertainty regarding the approach taken to assess and identify lease arrangements.
- 29 There is a clear project plan addressing the risks and timetable for implementation and progress is reported to the Board. The Trust can demonstrate it has considered the effect of the move to IFRS in most areas of the balance sheet and training is provided to members of the finance department. I have been provided with a well prepared working paper file to support the figures disclosed in the restated balance sheet.

Closing remarks

- 30 I have agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 3 November 2009 and will provide copies to all board members.
- 31 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Trust during the year.

Table 3

Report	Date issued
Audit Plan	May 2008
IFRS Arrangements	May 2009
Annual Governance Report	June 2009
Audit Opinion and VFM conclusion	June 2009
Review of Strategic Commissioning	August 2009
Annual Audit Letter	October 2009

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- 32 The Trust has taken a positive and constructive approach to my audit. I wish to thank the Trust staff for their support and co-operation.

Looking forward

- 33 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, and for NHS Trusts severe pressure on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 34 As the Trust's appointed auditor, I will continue to reflect on the Trust's response to these wider environmental issues and work with the Trust where possible to address any specific risk areas.

Jackie Bellard
Engagement Lead

October 2009

Appendix 1 – ALE key findings and conclusions

The following tables summarise the key findings and conclusions for each of the five key areas.

Financial reporting

Theme 1 - Financial reporting	
Overall score - Level 2	
In 2007/08 the Trust's financial reporting arrangements did not meet minimum requirements and action has been taken to address the weaknesses. The Trust has demonstrated improvements in financial reporting and is now meeting minimum requirements with an overall score of level 2.	
KLOE 1.1 (annual accounts)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Trust prepared plans to ensure the accounts were prepared, approved and submitted in accordance with statutory requirements, timetables and relevant accounting and reporting standards. The Trust also undertook a 'dry run' and produced a set of financial statements as part of the Month 9 exercise to identify and address any potential weaknesses.</p> <p>The timetable for receipt of the financial statements, disclosures and notes, and a complete set of working papers was discussed and agreed with external audit, and there was regular liaison during the audit process. The accounts submitted for audit did not contain material errors however a significant number of amendments were required to the notes and disclosures to comply with statutory reporting requirements.</p>	

Appendix 1 – ALE key findings and conclusions

Key findings and conclusions	
The Trust needs to improve its financial reporting arrangements to ensure that the financial statements presented for audit comply with the requirements of the NHS Manual for Accounts and that all disclosures are accurate.	
KLOE 1.2 (external accountability)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Trust had plans in place to ensure that the annual report was prepared in accordance with statutory requirements, however the draft annual report submitted to audit did not comply with a number of the requirements in the manual for accounts. A revised annual report was subsequently prepared which did meet the requirements of the manual.</p> <p>The Trust has sought to inform the development of the annual report through a review of best practice and notable annual reports, and has sought stakeholder views to inform the development of the annual report. The Trust should ensure that it continues to seek the views of stakeholders to inform external reporting. The annual report includes some commentary on trends and projections and information about the Trust's environmental footprint, but this content is limited and should be further developed.</p>	

Financial management

Theme 2 - Financial management	
Overall score - Level 2	
The Trust continues to meet minimum requirements for financial management, reflected in an overall score of 2 for this theme. The Trust has made improvements in financial management and this is reflected in the improvements to the individual KLOE scores for managing against budgets and managing the asset base.	
KLOE 2.1 (financial strategy and budgets)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Trust has developed the Medium Term Financial Strategy (MTFS) into one identifiable document, consistent with key strategic objectives and plans for NHS Cumbria, and this is integrated with business and service planning. The MTFS includes risk identification around potential changes that could impact on strategy but the MTFS does not yet reflect the robust financial modelling that is expected of a Foundation Trust.	

Appendix 1 – ALE key findings and conclusions

<p>KLOE 2.2 (managing performance against budgets)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust has well established budget monitoring arrangements including specific detailed monitoring of the CIP. Board reporting is of a good quality, including full income and expenditure account, balance sheet and analysis by clinical division and directorate. Finance reports to the Board are predictive and forward looking, including sensitivity analysis on a best, worst and likely scenario basis. Finance reports include explicit risk assessments and focus on large, high risk areas, and particularly the CIP.</p> <p>Budget information includes workforce and activity analysis, by directorate and clinical specialty. The Trust should ensure that Service Line Reporting information is integrated with financial monitoring to ensure that budget monitoring is clearly related to operational activity indicators that are lead indicators of expenditure.</p>	
<p>KLOE 2.3 (asset base)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust's estate strategy has been developed and updated and is approved by the Board. There is a clear capital programme, which is prioritised and approved by the Board alongside the revenue budgets for the year. There is some good evidence of work on sustainability and a local energy strategy. The Trust was assessed as level 1 in 2007/08 due to weaknesses in the fixed asset register however the Trust has taken action during 2008/09 to update and maintain an accurate asset register and this is reflected in the improved KLOE score.</p>	

Key findings and conclusions

The Trust needs to improve Board involvement in estates management. No key performance indicators (KPIs) or other management information is visibly reported to the Board or its sub-committees, and the Trust does not appear to have a comprehensive suite of estates KPIs. The asset register has not been an integral part of the Trust’s asset management information as it has not previously been kept up to date or actively used.

Financial standing

Theme 3 - Financial standing

Overall score - Level 2

KLOE 3.1 (managing within available resources)

Score

2

VFM criterion met

Yes

Key findings and conclusions

The Trust's financial standing has been assessed as level 2. The Trust achieved break-even in 2008/09 and delivered the required surplus for the repayment of working capital loans. The Trust has also met its capital resource limit for the year and has agreed a financial recovery plan with the SHA. The Trust delivered the recovery plan including loan repayments in both 2007/08 and 2008/09 and is projecting that it will meet its financial targets in 2009/10.

The Trust needs to develop the Medium Term Financial Strategy and Long Term Financial Model to ensure that financial plans and projections are supported by detailed and robust financial modelling, akin to that required for a foundation trust. This is particularly important in the context of ongoing negotiations with Commissioners and will be required as part of the development towards Foundation Trust status.

Appendix 1 – ALE key findings and conclusions

Internal control

Theme 4 - Internal control	
Overall score - Level 3	
Key findings and conclusions	
The Trust has improved performance on internal control and is now assessed at level 3, performing well consistently above minimum requirements. The Trust has demonstrated improvements in managing business risks and promoting probity and propriety and this is reflected in the improved scores. There have been significant improvements to the Audit Committee but the Trust needs to improve the procedure, guidance and monitoring of some aspects of internal control.	
KLOE 4.1 (significant business risks)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
An assurance framework is in place which is monitored by the Audit Committee. The Risk Management strategy has been approved by the Board and risk management arrangements and processes are in line with good practice. The Trust has clearly identified its strategic objectives and the Risk Register and the Assurance Framework are built around these, mapping through from the business plan to the Assurance Framework. The Board receives regular reports on key strategic objectives that have a high profile or are at risk. The Trust needs to ensure that there is clarity over the roles and responsibilities of the Board and Committees in respect of the Assurance Framework and risk management.	

<p>KLOE 4.2 (internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust has a suitable system of review of the system of internal control by the accountable officer and actions are put in place to address the risks identified. Systems are documented and have proved materially reliable in the past year. The Audit Committee has demonstrated significant improvement during 2008/09 and the Trust has an Internal Audit function that meets the required standards for internal audit in the NHS.</p> <p>Compliance with and the waiving of standing orders, standing financial instructions and the scheme of delegation should be monitored by management and appropriate action taken on any breaches identified. It is also good practice for non-compliance and waiving of procedure to be reported to the Audit Committee. The Trust needs to ensure that all business critical systems are supported by documented procedures that are appropriately tailored to the organisation and are reviewed and updated on an annual basis. The Trust should also ensure that there is clear guidance on procedures for obtaining legal advice.</p>	
<p>KLOE 4.3 (probity and propriety)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust has adopted appropriate codes of conduct, policies and procedures, and has arrangements in place to monitor compliance. The Trust is proactive in raising standards of conduct throughout the organisation. Significant activity has taken place during the year to raise awareness of expected standards of conduct and to publicise actions taken in response to fraud, although it is difficult for the Trust to demonstrate the impact of its proactive arrangements.</p>	

Appendix 1 – ALE key findings and conclusions

Value for money

Theme 5 - Value for money	
Overall score - Level 2	
Key findings and conclusions	
The Trust has adequate arrangements for managing and improving value for money and the overall score is 2. The Trust has demonstrated improvements in this area but the Trust needs to ensure that arrangements are consistently improved across the organisation to demonstrate effective outcomes.	
KLOE 5.1 (strategic objectives)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Trust's strategic planning process includes clinician involvement, addresses local and national priorities and includes engagement with a range of partners. Operational objectives include outcomes and responsibilities, and are linked to the Trust's strategy. The Trust needs to demonstrate good progress in achieving strategic and operational plans and ensure that capacity reviews are undertaken and acted upon in all business areas.	

<p>KLOE 5.2 (services)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust is demonstrating good performance in meeting the needs of patients and taxpayers. The Trust can demonstrate that the communication strategy is being implemented and several different methods are being used to engage with patients and their representatives, diverse groups and other stakeholders and partners. Patient feedback and actions implemented are reported to and monitored by the Board. There is evidence of engaging with hard to reach groups and using this feedback in service design.</p>	
<p>KLOE 5.3 (data quality)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust has processes in place to monitor performance against business objectives. The Trust can demonstrate good arrangements for ensuring data quality, adequate data quality training and up to date procedure notes, but needs to consistently improve clinical coding performance. The Trust needs to improve performance reporting, ensuring that action plans are in place to evidence appropriate and timely action, and reviewing the effectiveness of actions to achieve the desired results.</p>	

Appendix 1 – ALE key findings and conclusions

KLOE 5.4 (managing resources)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Trust has made progress on clinical efficiency and productivity plans and can demonstrate that it has a procurement strategy and has obtained benefits from e-procurement. The Trust needs to ensure that the efficiency of all back office functions is reviewed, and that it has taken actions and can demonstrate improvements as a result of cost and efficiency reviews. The Trust should also ensure that Service Line Reporting information is used to identify efficiencies and deliver improvements.	

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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