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Board members
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Dear Board members

North Cumbria University Hospitals NHS Trust Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of North Cumbria University Hospitals NHS Trust.

Financial statements

On 6 June 2012 I presented my Annual Governance Report (AGR) to the Trust's Audit Committee outlining the findings of my audit of the Trust's 2011/12 financial statements. My Report included the following significant issues:

Accounts Preparation

The Trust's preparation of the accounts and review procedures were poor. Several key documents were not available as agreed when we commenced the audit and once again there have been many amendments to the accounts. Although a key member of the Trust's finance team was off sick during the audit, the remaining staff worked with my audit team to provide the required audit evidence so that I could conclude the audit.

Review of expenditure accrual relating goods received not invoiced

I reported an uncertainty regarding an accruals balance of £1.455 million relating to purchase orders placed and recorded on the accounts payable system but for which no invoice had been received at the year end. In some cases, orders that had been partially fulfilled were receipted on the system, which caused an accrual to be created for the balance of the order even though the balance of goods or services had not been received. Many of the items dated back to August/September 2011. This error means that the expenditure reported each month and for the year was overstated. It is not possible to assess with certainty by how much expenditure and accruals were overstated, but the error rate found in additional audit testing suggests that there may have been an overstatement of accruals of £608,000 with corresponding overstatements of £517,000 revenue expenditure and £91,000 capital additions.

Checking accounts received from HMC for the PFI contract

The quarterly payments of over £4.5m to HMC for the PFI contract unitary charge are significant amounts of money. It is not clear who is responsible for checking the invoices from HMC to ensure that change orders are properly calculated and included in the quarterly invoices. In addition the Trust had not identified the reasons for the £1.7 million increase in annual cost to the Trust. An analysis was provided during the audit.

Management and maintenance of medical equipment and asset register

The Trust identified during the year that management controls for identifying and maintaining medical equipment were poor. My audit testing showed that equipment initially identified as disposed of was in fact in use. I also identified that there were control weaknesses in maintaining the Trust's register of all property, plant and equipment.

Management has acknowledged the control weaknesses and is addressing them.

Value for Money Conclusion

I acknowledge that the Trust has recognised the financial challenges in providing services across North Cumbria from the two hospitals. In February 2011 the Trust Board resolved that it would need to merge with another trust to achieve foundation trust status in line with Government policy. During the 2011/12 financial year it has followed a transparent acquisition process and is now working with Northumbria Healthcare NHS Foundation Trust to achieve a merger within the current financial year.

However, I identified weaknesses in your arrangements to secure financial resilience and to secure value for money. The significant issues informing my judgement are:

- at the start of 2011/12 the Trust did not have robust plans in place for delivery of a significant part of its required cost improvements of £15.2 million and had only delivered £7.9 million by the end of the year;
- the Trust received additional income of £28 million from NHS North West to enable it to achieve its statutory breakeven duty;
- at the start of 2012/13 only £11.1 million of the required £16.9 million savings plans were developed;
- to achieve breakeven in 2012/13 the Trust will require additional income from NHS North West of at least £19 million;
- during the 2011/12 financial year the Trust developed a medium term financial plan but this was not in place until September 2011;
- the Trust is developing its clinical strategy to ensure it is financially viable but significant additional financial support is required to support the services provided across the two sites; and
- the Trust has developed Service Line Reporting during 2011/12 but at the end of the year it identified that further improvements were needed, in particular, the involvement of clinicians and business managers.

Quality Account

The Health Act 2009 and associated regulations require all providers of NHS healthcare services in England to publish a quality account each year about the quality of NHS services they deliver. I am required to review the Quality Account (QA) and give a limited assurance report regarding whether the QA complies with the Regulations. I also reported to Management on the detailed testing I completed on three of the Trust's performance indicators.

I made recommendations for improvements in the way the Quality Account is prepared each year to ensure that it includes all the items required the Regulations. I also recommended improvements to the way in which data is collected and reported to the Board and within the Trust's Annual Report and Quality Account.

Payment by Results (PbR) Data Assurance Framework

In May 2012 the Audit Commission released two PbR Data Assurance Framework reports on the Trust.

The PbR National Data Assurance report focused on the accuracy of clinical coding data and all data items that affect the price commissioners pay the Trust for a spell under PbR rules. The report highlights that the performance of the Trust, measured using the clinical coding HRG error rate, is better than the national average;

The follow-up report contained the findings from the follow-up of the most recent recommendations from the most recent clinical coding audit, the outpatients data quality review and the reference costs review. I found that the Trust has completed:

- both of the actions agreed in the 2009/10 clinical coding audit and this has had a positive impact on the accuracy of coding;
- only three out of nine of the agreed actions included in the 2008/09 outpatients data quality review. The main areas where the Trust has not made progress are in the approval of an updated Data Quality strategy and setting up a framework to review and report on data accuracy;
- only seven of the 13 actions agreed in the 2010/11 reference cost audit report. Agreed actions not completed include involving clinical and non-finance staff, and specific actions to improve costing accuracy.

The Trust has agreed further recommendations aimed at improving standards of data quality.

Following the Audit Committee on 6 June 2012 I have:

- issued an unqualified opinion on the Trust's 2011/12 financial statements on 11 June 2012, meeting the Department of Health's deadline of 11 June;
- concluded that you have not made proper arrangements to secure economy, efficiency and effectiveness in your use of resources;

- completed the external assurance review of the Trust's quality account and issued a separate report of my findings to management on 29 June 2012; and
- certified completion of the audit on 29 June 2012.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and Director of Finance. This has been another challenging year for the Trust and I acknowledge the hard work of the Board and the staff in progressing the merger with Northumbria Healthcare. I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit Committee for their support and co-operation during the audit.

Yours sincerely

Jackie Bellard
District Auditor