
Kettering General Hospital NHS Trust

Annual Audit Letter
Audit 2005/2006
October 2006



supporting nhs trusts

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Trust

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 or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Copies of this letter

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Purpose, responsibilities and scope

The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the directors of the Trust, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Trust website.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Trust

- 3 We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public sector bodies in England, including NHS trusts.
- 4 As the Trust's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives. It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Trust is fulfilling these responsibilities.

The scope of our work

- 5 We plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Trust's accounts; and
 - whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 In addition to this, we use our assessments to provide scored judgements for the Healthcare Commission to use as part of its annual health check.
- 7 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Trust. A list of all reports issued to the Trust in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

Key messages

- 8 The following matters should be considered by the Trust Board.

Table 1 Key conclusions and required actions

Area	Issue/conclusion	Recommended action
Accounting issues	I gave an unqualified opinion on the 2005/06 accounts.	The Board should ensure that plans are put in place to enable the preparation of the 2006/07 Annual Report alongside the accounts.
Financial standing	The Trust achieved breakeven in 2005/06 despite difficult circumstances facing the local health economy, but financial risks remain for 2006/07 and into the longer term.	The Trust should continue to develop its arrangements to monitor progress against the Cost Improvement Programme to ensure that the Board has a clear understanding of the financial position and can prompt corrective action at any time.
Value for money conclusion	I concluded that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources as required under the Audit Commission's Code of Audit Practice.	The Audit Committee should monitor progress against agreed recommendations within the action plans for our specific reviews.
Auditors' local evaluation	Our scores indicate that the Trust's performance for Financial Management, Financial Standing, Internal Control and Value for Money is adequate, whilst in the area of Financial Reporting the Trust is performing well.	The Trust should plan how to improve its performance against the ALE criteria, and the Board should monitor progress.

The audit of the accounts

- 9 We were able to issue an unqualified opinion on the Trust's accounts on 6 July 2006, in advance of the deadline set by the Department of Health. In our opinion, the accounts give a true and fair view of the Trust's financial affairs and of the income and expenditure recorded by the Trust during the year.
- 10 Before we give our opinion on the accounts, we are required to report to those charged with governance, in this case the Trust's Audit Committee, significant matters arising from the audit. We issued our Annual Governance report on 5 July 2006.

Accounting issues

- 11 The Trust has a very strong record for its closedown procedures and the accounts and working papers were produced on time.
- 12 For 2006/07, the Trust will need to complete its Annual Report in advance of receiving the audit opinion, some three months earlier than this year's performance. One consequence of not achieving this earlier deadline would be a reduction in the ALE score for financial reporting (failure to achieve this may also lead to a qualification of the audit opinion).
- 13 Our report to those charged with governance referred to our concerns regarding the contractual matters relating to car parking on the hospital site. We understand that following investigations the Board is considering how to resolve the matter. We shall keep this matter under review.

Recommendation

R1 The Board should ensure that plans are put in place to enable the preparation of the 2006/07 Annual Report alongside the accounts.

Financial standing

- 14 The Trust made a £3,000 surplus of in 2005/06 despite difficult circumstances facing the local health economy. This was enabled by the delivery of a very challenging Cost Improvement Programme (CIP), and represents a significant achievement. In my previous annual audit letter, I stated that I had put the Board on notice that I was considering issuing a report in the public interest under Section 8 of the Audit Commission 1998 Act, because of the financial management of the Trust, but that I wanted to allow the Board the opportunity to implement its recovery programme. The improvement in the Trust's performance in 2005/06 meant that I was able to inform the Trust that a Section 8 report was no longer appropriate.

- 15 The Trust has received a total £7.7m of planned support to cover its estimated gap in 2005/06 and prior year losses, and this will need to be repaid. The ongoing challenges facing the local economy and this requirement to repay this debt mean that significant financial risks remain for 2006/07 and beyond. We are aware that there are ongoing discussions with healthcare purchasers and the other providers regarding the financial gap, and further demanding CIPs are likely to be required.

Recommendation

R2 The Trust should continue to develop its arrangements to monitor progress against the Cost Improvement Programme to ensure that the Board has a clear understanding of the financial position and can prompt corrective action at any time.

The Trust's use of resources

- 16 We are required to issue a conclusion on whether we are satisfied that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 17 We are also required to assess how well NHS organisations manage and use their financial resources by providing scored judgements on the Trust's arrangements in five specific areas. This is known as the Auditors' Local Evaluation.

Value for money conclusion

- 18 We concluded that the Trust has proper arrangements in place to secure value for money in the use of resources and issued an unqualified value for money conclusion. The criteria against which the Trust was assessed were set out in my Annual Governance report issued in July 2006.
- 19 To help the Trust improve its arrangements we will seek to identify notable practice in the areas where it scored lowest and share this. We will also meet regularly with executive directors and senior managers to review progress.

Specific risk-based work

- 20 We also carried out a specific pieces of work as follows:
 - Data Quality work on clinical coding – 2004/05 follow-up;
 - Implementing Payment by Results;
 - Acute Hospital Portfolio – Medicines Management;
 - Acute Hospital Portfolio – Diagnostics; and
 - Acute Hospital Portfolio – Admissions Management.
- 21 In 2004 the Audit Commission, Healthcare Commission and the Department of Health agreed a spot check programme of waiting times and waiting list accuracy. Overall findings of our review at the Trust indicated there were some weaknesses in systems and processes underpinning the recording of waiting list and waiting time information. The follow up work concluded that overall the Trust was improving. Good progress had been made in management arrangements for central returns; however, there were still some weaknesses in management arrangements for data entry, accountability, policies and procedures, and IT, with only half of the original recommendations having been completed. However, these weaknesses were not reflected in data testing results, which showed significant improvements since the original review.

- 22 Our review of PbR identified that the Trust had made good progress in its practical implementation, complying with all national requirements, and with staff in all key departments such as finance, information and data quality participating in detailed work to achieve implementation timetables. However, whilst the detailed implementation had been successful, there was little attention given to some of the more strategic aspects of the implementation of PbR. We reported that the Trust needs to develop an overarching strategy to identify the risks and opportunities facing it, and ensure the clinical coding team establishment has a sufficient level of resources to maximise the impact of PbR on the Trust's income.
- 23 Our work on Acute Hospitals Portfolio (AHP) highlighted areas where performance is good, but also areas where improvements can be made. In some cases, such improvements may assist the Trust in delivering its cost improvement plan. We will discuss the need to undertake further work with the Trust to investigate areas for further improvement, using the national AHP database as a reference point. The Healthcare Commission has assessed the three areas based on a selection of the indicators, and awarded the Trust a rating of 'good' in medicines management and diagnostics, and 'fair' in admissions management.
- 24 The Audit Committee Handbook states that Audit Committees should monitor progress to implement the action plans from our reports, and the system for doing this is being developed at the Trust.

Recommendation

R3 The Audit Committee should monitor progress against agreed recommendations within the action plans for our specific reviews.

Auditors' Local Evaluation

- 25 We assessed the Trust's arrangements in five areas. Each area was scored from 1 to 4:
- 1 = below minimum requirements – inadequate performance;
 - 2 = only at minimum requirements – adequate performance;
 - 3 = consistently above minimum requirements – performing well; and
 - 4 = well above minimum requirements – performing strongly.
- 26 In June 2006, we reported to you our interim assessments for financial management, internal control and value for money. We have now completed the work required to score the Trust on its arrangements for the remaining two themes.
- 27 Table 2 below sets out our draft scores for the Trust in each of the five key areas. All areas were assessed as being either adequate or performing well.
- 28 The scores have been subject to the Audit Commission's quality assurance processes, established to ensure auditors have arrived at their judgements in a consistent manner. We have recently issued a detailed report to the Trust, and have met with key officers to discuss the way forward.

Table 2 **ALE scores**

Area	Score	Recommended action
Financial reporting	3	Covered above and detailed actions in ALE report.
Financial management	2	Detailed actions in ALE report.
Financial standing	2	Covered above and detailed actions in ALE report.
Internal control	2	Detailed actions in ALE report.
Value for money	2	Covered above and detailed actions in ALE report.

- 29 The Trust is keen to improve its performance on ALE alongside its drive for Foundation status. The key this will be to plan to address the gaps in meeting the criteria or in the ability to evidence this achievement, and to have clarity on the responsibility. We have suggested that evidence is gathered throughout the year and compiled using financial statements working papers as a model, thereby proving the evidence for each criterion of each KLOE.

Recommendation

R4 The Trust should plan how to improve its performance against the ALE criteria, and the Board should monitor progress against that plan.

Closing remarks

- 30 This letter is to be discussed and agreed with the Chief Executive and Director of Finance. A copy of the letter will be presented at the Audit Committee in October 2006 and copies will be provided to all Board members.
- 31 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Trust during the year. These are listed in the following table.

Table 3 Reports issued in relation to the 2005/06 audit

Planned output	Actual date of issue
Audit Plan	April 2005
Annual Governance Report	July 2006
Opinion on Financial Statements	June 2006
Value for Money Conclusion	July 2006
Auditor's Local Evaluation (ALE) – summary of draft findings letter	October 2006
Data Quality spotcheck follow-up	May 2006
Implementing Payment by Results	April 2006
Medicines Management – AHP	August 2006
Diagnostics – AHP	August 2006
Admissions Management – AHP	August 2006
Agenda for Change	October 2006
Annual Audit Letter	October 2006

- 32 The Trust has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for all of the assistance and co-operation given.

Ian Sadd
Engagement Lead

October 2006