

# Annual Audit Letter

Kettering General Hospital NHS Foundation Trust

Audit 2010/11



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## Traffic light explanation

Red  Amber  Green 

# Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I have not made any recommendations in this report.

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Audit opinion and financial statements

I issued an unqualified opinion on your accounts on 6 June 2011, in line with the 7 June 2011 deadline set by Monitor for NHS foundation trusts to submit audited accounts.

In my opinion, the accounts give a true and fair view of the Trust's financial affairs and of its income and expenditure for 2010/11.

You have good arrangements for the production of your financial statements. You provided good quality supporting working papers at the start of the audit visit and finance staff responded promptly to my queries.

## Value for money

My conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources at the Trust was unqualified. My review did not identify any matter that would lead me to believe that the Trust did not have adequate arrangements in place.

## Limited assurance opinion on the Quality Report

I issued a limited assurance opinion on the content of the Trust's Quality Report on 6 June 2011. This concluded that the Quality Report was prepared in line with Monitor's guidance and was not inconsistent with the information sources specified by Monitor.

# Current and future challenges

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The Trust, like the wider NHS and other public bodies, faces some significant challenges in the coming years. The environment in which it operates is changing, affecting both the commissioners and providers of NHS services. Other public bodies are also facing tough financial restraints in the years ahead, dealing with expected decreases in government spending. The draft Health and Social Care bill currently going through Parliament and the government's health policy priorities are underpinned by a drive to make the NHS more efficient by cutting costs to deliver more for less and re-investing savings in frontline service delivery. In addition, the government has specifically committed to extending patient choice of Any Qualified Provider (AQP) for appropriate services over the period from now until April 2013.

The Trust reported reasonable financial results in its 2010/11 accounts. The Trust's business plans already include significant cost reduction programmes to preserve the underlying financial health of the Trust, although these are challenging and the change in financial climate puts further pressure on future financial sustainability. The Trust has set up a Project Management Office to oversee its savings plans and help with the financial challenges it faces. The Trust is also engaged on its major £30m Women and Children's Health capital project, scheduled for completion in summer 2012.

In 2011/12 the reshaping of community health services means some of these are being brought under the Trust's control. This change will bring some expansion and new challenges for the management team.

In Northamptonshire, two different groups of GPs have been awarded pathfinder status, giving them the opportunity to establish themselves as potential new commissioners and replacing the single Northamptonshire PCT from 2013. The Trust will need to continue to work with these groups to actively identify and manage their needs and expectations. The change to commissioning is a significant future risk which needs to be managed alongside trying to improve service delivery and value for money against delivering challenging financial savings.

# Financial statements and annual governance statement

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**The Trust's financial statements and Annual Governance Statement are an important means by which the Trust accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I issued an audit report including an unqualified opinion on the financial statements on 6 June 2011.

The draft accounts submitted for audit were of very good quality and the supporting working papers and schedules were provided at the start of the audit, as agreed. I did not identify any material errors in the accounts during the audit. Of the few errors and uncertainties I did identify, most were amended by management. I reported details of the errors to the Audit Committee.

I did not identify any significant difficulties when undertaking my audit. Management were responsive to information I required to complete my work and were able to provide me with the audit evidence I sought in a timely manner, and in accordance with agreed timescales. There were no restrictions placed on me by management.

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in your internal control arrangements. I highlighted a risk with the Trust's disaster recovery arrangements within my audit plan, but this has not affected my assessment of the Trust's system of internal control.

# Securing economy, efficiency and effectiveness

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I assessed your arrangements for securing economy, efficiency and effectiveness (3 Es) in your use of resources.

## Use of resources

I have drawn upon:

- my audit work on the Annual Governance Statement as part of the audit of the financial statements;
- the results of the work of regulatory bodies such as the Care Quality Commission; and
- consideration of your Monitor Governance Risk Ratings.

I have completed my work in these areas and have been able to satisfy myself that the Trust has made proper arrangements in securing the 3 Es in its use of resources.

## Annual Governance Statement

There were no issues arising from my review of the Trust's Annual Governance Statement or consideration of its Monitor Governance Risk Ratings that led me to consider the Trust did not have proper arrangement in securing economy, efficiency and effectiveness.

# Other activities

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## Review of the Trust's 2010/11 Quality Report

The foundation trust regulator (Monitor) defines the extent of the work auditors carry out on Quality Reports. On 31 March 2011 it published 'Detailed Guidance for External Assurance on the Quality Reports'. I based my work on that guidance, which required the Trust to:

- include a brief description of the key controls in place to prepare and publish a Quality Report, in the Statement on Internal Control or Annual Governance Statement in the 2010/11 published accounts;
- sign a Statement of Directors' Responsibilities in respect of the content of the 2010/11 Quality Report for inclusion in the published 2010/11 Quality Report within the annual report;
- sign a Statement of Directors' Responsibilities in respect of the 2010/11 performance indicators included in the Quality Report. The Trust did not have to publish this statement in the 2010/11 Quality Report;
- include my signed limited assurance report on the content of the 2010/11 Quality Report in the annual report; and
- submit a copy of my report on the outcome of the external assurance work performed on the content of the Quality Report and the mandated and local indicators to Monitor and to the Trust's Council of Governors.

Monitor's guidance required auditors to:

- review the content of the 2010/11 Quality Report against the content requirements included in the NHS Foundation Trust Annual Reporting Manual 2010/11, issued on 31 March 2011;
- review the content of the 2010/11 Quality Report for consistency against other information sources (set out in more detail in the guidance);
- provide a signed limited assurance report in the Quality Report on whether anything:
  - had come to my attention that led me to believe the content of the Quality Report was not in line with the requirements of the NHS Foundation Trust Annual Reporting Manual 2010/11; or
  - was not consistent with the other information sources;
- undertake substantive sample testing of two mandated performance indicators and one indicator selected locally by the Council of Governors; and
- provide a report to the Trust Board of my findings and recommendations for improvements.

I issued a limited assurance opinion on the content of the Quality Report on 6 June 2011. This concluded that the Quality Report was prepared in line with Monitor's guidance and was not inconsistent with the information sources specified by Monitor.

I reported findings from my review and testing of the performance indicators to the Trust in a more detailed report. I found that the data supporting the indicators was substantiated and supported by robust systems. I made a small number of recommendations from my work, which I discussed and agreed with management.

## **Payment by results (PbR) data assurance framework**

In 2008/09, the Department of Health asked the Audit Commission to review the quality of reference costs from a sample of 16 NHS organisations (15 acute trusts and one PCT). Because of the review findings, the DH recommended the Audit Commission, as part of its PbR data assurance framework, deliver a programme of reference cost data quality reviews at all acute NHS trusts and FTs in 2010/11. In 2010/11 work was undertaken on the data quality of the Trust's 2009/10 reference costs, which are the average cost of providing a defined treatment service in a given financial year. Reference costs are important because they provide the NHS with key data to calculate and develop the national tariffs used under PbR. We found that the Trust has adequate arrangements in place to support the submission of the reference costs return. Our review did not highlight any issues which would suggest that the 2009/10 reference costs return was materially misstated.

## **Ongoing independent support**

During the year we have continued to support the Trust in other ways, including:

- attendance at Audit Committees. At these meetings, we inform the Committee about progress on the audit, report our key findings, and update it about developments in the NHS, foundation trusts, and the wider environment;
- facilitating and reporting on the annual Audit Committee self-assessment against the criteria set down in the NHS Audit Committee Handbook and Monitor's Code of Governance;
- hosting our popular NHS Final Accounts workshop for Trust finance staff; and
- undertaking an early independent review of the Trust's draft financial statements, prior to submission to Monitor on 21 April 2011.

# Closing remarks

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I have discussed and agreed this letter with the interim Chief Executive and the Finance Director. I will present this letter at the Audit Committee on 19 August 2011 and will provide copies to all board members. 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:

Report	Date issued
2010/11 Audit Fee Letter	April 2010
External Audit Progress Report and Briefing	To each Audit Committee meeting
Internal & External Audit Joint Working Protocol	November 2010
Audit Committee self-assessment survey results	February 2011
Audit Opinion Plan	April 2011
PbR Data Assurance - Reference Cost Data Quality Audit	April 2011
Annual Governance Report	June 2011
Audit Opinion on the Financial Statements	June 2011
Limited Assurance Opinion on the Trust's Quality Report	June 2011
External Assurance Report on the Trust's Quality Report	June 2011

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

John Cornett, District Auditor

July 2011

# Appendix 1 - Fees

	Actual	Proposed	Variance
Opinion on the Financial Statements, review of Annual Governance Statement and 3Es conclusion;	49,950	49,950	0
Whole of Government Accounts (WGA) returns	1,500	1,500	0
External assurance on 2010/11 Quality Report	6,325	7,000	(675)
<b>Total audit fees</b>	<b>57,775</b>	<b>58,450</b>	<b>(675)</b>
Non-audit work	0	0	0
<b>Total</b>	<b>57,775</b>	<b>58,450</b>	<b>(675)</b>

# Appendix 2 - Glossary

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## **Annual Governance Statement**

Public bodies must provide assurance that they are appropriately managing and controlling their money, time and people. The Annual Governance Statement (AGS) is an important document for communicating these assurances to Parliament and citizens.

The AGS is the means by which the Chief Executive Officer declares his or her approach to and responsibility for, risk management, internal control and corporate governance. It is also used to highlight weaknesses which exist in the internal control system within the organisation. It forms part of the Annual Report and Accounts.

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view and that the spending and income was regular, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view; or
- I find that some spending or income was irregular.

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- any member, governor, non executive director, director or officer in their individual capacity; or
- any third party.

