

Annual Audit Letter

Northampton General Hospital NHS Trust

Audit 2009/10

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.

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Key messages

This report summarises the findings from my 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 5 and 6); and**
- **my Auditor's Local Evaluation (ALE) of your arrangements to achieve value for money in your use of resources (pages 7 to 9).**

I have included only significant recommendations in this report. The Trust has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on your accounts on 28 May 2010, before the 11 June 2010 deadline set by the Department of Health for NHS bodies to submit audited accounts.

2 In my opinion, the accounts give a true and fair view of the Trust's financial affairs and of its income and expenditure for 2009/10.

3 You have good arrangements for the production of your financial statements. The draft financial statements were submitted to the Department of Health by the submission deadline. You provided good quality supporting working papers at the start of the audit visit and finance staff responded promptly to my queries.

Use of resources

4 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against 12 criteria specified by the Audit Commission, which are detailed in Appendix 2. I issued an unqualified conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources on 28 May 2010.

Future challenges

5 The NHS White Paper, Equity and Excellence: Liberating the NHS, emphasises the continued financial challenges facing all NHS organisations. The underlying theme of the White Paper is a drive to make the NHS more efficient by cutting costs, to deliver more for less and re-investing savings into frontline service delivery. All trusts will need to strengthen their arrangements for financial, operational and quality delivery. All trusts will be expected to achieve Foundation status.

6 The White Paper plans significant changes to the structure of the NHS and the way in which it operates. Primary Care Trusts will be abolished and replaced by GP Consortia. One of your key challenges emerging from these changes will be to ensure the Trust is best placed to respond to these changes. You will need to ensure that you can maximise the opportunities the changes will inevitably present whilst at the same time seeking to deliver your core business to a high standard. You will need to consider whether you have the capacity and capability to contract and deal with an increased number of 'purchasers' for your services.

7 The economic downturn is having a significant impact on all public finances and the bodies that manage them. An immediate impact has been felt by most NHS trusts through the zero per cent uplift in commissioning contracts. At the same time you have an ambitious Cost Improvement Plan (CIP) target of £12 million to deliver in 2010/11. Seven months into the year, £0.6 million of the targeted savings have not been identified. Additionally, identified savings are phased so that almost two-thirds are still to be delivered in the second half of the year.

8 One of the underlying causes of the failure to deliver your CIP is your consistent over-performance against contracts, the most significant of which is the increase in non-elective activity. This has had a negative impact on your delivery of efficiency CIPs from elective activity in the first half of the year, which has reduced bed availability for elective patients. Areas of particular forecast over performance include:

Table 1: **Forecast over-performance against contract**

Over-performance area	Forecast 2010/11 over-performance Value £'000
Non-elective activity	2,381
Oral surgery	985
Ophthalmology - Diabetic retinopathy	638
Total	4,004

Source: *NGH Board Reports*

9 A continued increase in demand for services is unsustainable in the current economic climate due to the lower rates paid to the Trust for this work which would continue to adversely impact the financial position of the Trust. Equally this issue can only be addressed through a collaborative approach between the Trust Board, Clinicians and your Commissioners and whilst I recognise that your commissioners face an uncertain future the issue needs to be addressed as a matter of the highest priority and before the creation of General Practice (GP) Commissioning Consortia.

10 Further, your 2009/10 financial statements showed a poor performance against the Better Payments Practice Code (BPPC). This has worsened for the first part of 2010/11, which signals continuing cash management difficulties - in part due to delays in receiving payment for over-performance from your commissioners. It is noted that BPPC performance has now started to improve.

11 As Board Members you will need to be mindful that current financial pressures are impacting on all public sector organisations and therefore decisions they take may impact on the Trust and could ultimately restrict the choices available to you. You will therefore need to be prepared to take difficult and challenging decisions in order to secure the continued and future success of the Trust.

12 It is against this background that I make the following recommendations to the Trust Board.

Recommendations to the Trust Board

R1 Identify and act upon the opportunities presented by the NHS White Paper whilst continuing to deliver the core business to a high standard.

R2 Work collaboratively with your clinicians and commissioners to address the continued and unsustainable over-performance against contracts.

R3 Maintain robust challenge of the Trust's financial models to mitigate the risk of not achieving your Cost Improvement Plan (and therefore financial balance) and the generic financial risks facing the public sector from both the NHS White Paper and the autumn spending review.

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.

Overall conclusion from the audit

13 This was the first year of preparing accounts under International Financial Reporting Standards (IFRS) for the Trust and the draft financial statements produced for audit were free from material error. You have good arrangements for the production of your financial statements. The draft financial statements were submitted to the Department of Health by the submission deadline.

14 You provided good quality supporting working papers at the start of the audit visit and finance staff responded promptly to my queries.

15 Some minor adjustments were made to the financial statements during my audit. A potential undervaluation of fixed assets of £153,000 was not adjusted. I reviewed your asset valuations and concluded that in total they were materially correct.

16 I issued an unqualified opinion on your accounts on 28 May 2010.

Significant weaknesses in internal control

17 I did not identify any significant weaknesses in your internal control arrangements.

External Assurance on Restatement of 2008/09 balance under IFRS

18 The Department of Health (DH) required that NHS Trusts have the arrangements supporting their 1 April 2008 restated balance sheets reviewed using review using Audit Commission's agreed methodology.

19 We reported in April 2009 that the Trust's arrangements were satisfactory, and made some minor recommendations for improvement.

20 The DH also required NHS Trusts to prepare restated 2008/09 financial statements and summarisation schedules under IFRS by 4 September 2009.

21 We undertook an audit of these restated balances and issued an unqualified opinion on 29 October 2009, in line with the DH's reporting deadlines.

Use of resources

I considered how well the Trust is managing and using its resources to deliver value for money and gave a scored Auditor's 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

22 The Audit Commission has published Key Lines of Enquiry (KLOE) which auditors use in reaching scored ALE judgementsⁱ. The KLOE provide consistent criteria for assessing and measuring the effectiveness and efficiency of a trust's arrangements to deliver value for money.

23 Using this methodology, I have made a judgement for each KLOE using the Audit Commission's current four-point scale from 1 to 4, with 4 being the highest level. Level 1 represents a failure to meet minimum requirements.

24 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.

25 My risk based approach has confirmed that the Trust continues to maintain its overall level 3 assessment, with individual scores for the five key areas also either maintained, or for Financial Reporting, improved. Further details of my findings are summarised in Appendix 3.

Table 2: **ALE scores**

Key area	Scored judgement
Financial reporting	3
Financial management	3
Financial standing	4
Internal control	3

ⁱ 'ALE for Trusts' guidance available on the Audit Commission website.

Key area	Scored judgement
Value for money	3

VFM conclusion

26 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 2.

27 I issued an unqualified conclusion stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources on 28 May 2010.

Risk-based use of resources reviews

28 To support my review of the criteria I undertook a 2-Stage Board Assurance Framework Review.

29 I found that during 2009/10, the Trust had undertaken a significant amount of work to improve its Board Assurance Framework, along with the risk management processes underpinning it; however my review found there was still scope for further improvements in risk management within the Trust.

30 The development of risk registers within the Trust had not progressed as significantly during the year, and work was still ongoing.

31 I have reported my detailed findings and recommendations to the Trust in separate reports.

Approach to local value for money work from 2010/11

32 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

33 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

34 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Trust in my annual report to those charged with governance and in my annual audit letter.

Closing remarks

35 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 15 December 2010 and will provide copies to all board members.

36 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
2009/10 Audit Fee Letter	April 2009
External Audit progress Report	April 2009
External Audit progress Report	June 2009
Board Assurance Framework - Stage 1 Review	September 2009
External Audit progress Report	September 2009
Internal and External Audit Joint Working Protocol	November 2009
External Audit progress Report	December 2009
External Audit progress Report	March 2010
Detailed Audit Opinion Plan	February 2010
Board Assurance Framework - Stage 2 Review	April 2010
External Audit progress Report	June 2010
Annual Governance Report	June 2010

37 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

October 2010

Appendix 1 Audit fees

Audit fees

My audit fee for the 2009/10 audit was £110,000 and this remained unchanged through the year.

Table 4: **Audit fees**

	Actual	Proposed	Variance
Financial statements and statement on internal control	£ 88,850	£ 88,850	£ -
Value for money/ALE work	£ 21,150	£ 21,150	£ -
Total Code audit fees	£110,000	£110,000	£ -
Audit of IFRS restated balances	£ 10,000	£ 10,000	£ -
Total	£120,000	£120,000	£ -

Appendix 2 Value for money conclusion

Code criteria	Adequate arrangements?
1. The body has put in place arrangements for setting, reviewing and implementing its 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.	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.	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.	Yes
5. The body has put in place arrangements to maintain a sound system of internal control.	Yes
6. The body has put in place arrangements to manage its significant business risks.	Yes
7. The body has put in place arrangements to manage and improve value for money.	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.	Yes
9. The body has put in place arrangements to ensure that its spending matches its available resources.	Yes
10. The body has put in place arrangements for managing performance against budgets.	Yes
11. The body has put in place arrangements for the management of its asset base (only applicable to organisations with a significant 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.	Yes

Appendix 3 ALE key findings and conclusions

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

Financial reporting

You scored a level 2 for KLOE 1.1 in 2008/09 and a level 3 for KLOE 1.3 therefore I carried out a detailed review of the Financial Reporting theme.

Financial Reporting overall score		3
Key findings and conclusions		
You have good arrangements in place to prepare the financial statements and for external reporting.		
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KLOE 1.1 (annual accounts)		
Score		3
<hr/>		
The audit of your financial statements was completed smoothly and I concluded that your arrangements were good.		
The accounts were submitted for audit on time, were free from material errors and were supported by good quality working papers and prompt answers to queries during the audit visit.		
I issued my audit opinion two weeks before the Department of Health deadline.		
<hr/>		
KLOE 1.2 (external accountability)		
Score		3
<hr/>		
Board agendas, reports and minutes are made available to the public on a timely basis.		
Your annual report complied with Department of Health requirements and had been produced following consultation with stakeholders.		
You included commentary about your environmental footprint in your Annual Report, although did not include any detailed analysis, despite having carried out a significant amount of work in this area.		
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Financial management

I assessed your performance against the ALE triggers when reviewing the Financial Management theme.

Overall score	3
Key findings and conclusions against the triggers	
I have confirmed that there has not been a significant shift from your financial plan and that your medium-term financial plan has been reviewed in light of the savings required due to pressure on public spending.	
KLOE 2.1 (financial strategy and budgets)	
Score	3
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	
KLOE 2.2 (managing performance against budgets)	
Score	3
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	
KLOE 2.3 (asset base)	
Score	4
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	

Financial standing

I assessed your performance against the ALE triggers when reviewing the Financial Standing theme.

Overall score	4
Key findings and conclusions against the triggers	
The Trust did not forecast a deficit at any time during the year and the forecast outturn was achieved.	
KLOE 3.1 (managing within available resources)	
Score	4
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	

Internal control

I assessed your performance against the ALE triggers when reviewing the Internal Control theme. I also carried out a 2-stage review of your Board Assurance Framework.

Overall score	3
Key findings and conclusions against the triggers	
You have not experienced a significant adverse event or received any external report suggesting that internal controls have not been operating adequately.	
You have reviewed your arrangements against the Board checklist and the general findings of the Audit Commission report Take it on Trust and developed an action plan to address gaps in assurance.	
KLOE 4.1 (significant business risks)	
Score	2
I carried out a detailed two-stage review of your Board Assurance Framework. I found that during 2009/10 you had undertaken a significant amount of work to improve the Board Assurance Framework, along with the risk management processes underpinning it; however my review found there was still scope for further improvements in risk management within the Trust.	
The development of risk registers within the Trust had not progressed as significantly during the year, and work was still ongoing. Directorate risk registers were not consistent in their quality and completeness, which increases the chance that risks to the Trust may not be detected.	
My work confirmed that although you had made significant improvements, the 2008/09 score of 2 was still appropriate as risk registers were not developed enough to be considered embedded.	
KLOE 4.2 (internal control)	
Score	3
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	
KLOE 4.3 (probity and propriety)	
Score	3
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	

Value for money

I assessed your performance against the ALE triggers when reviewing the Value for Money theme. I also reviewed your progress with engagement with hard-to-reach groups.

Overall score:	3
Key findings and conclusions against the triggers	
Your performance on key operational targets has not materially deteriorated. You are making active progress with the key actions from the NHS Carbon Reduction Strategy 2009.	
KLOE 5.1 (strategic objectives)	
Score	3
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	
KLOE 5.2 (services)	
Score	3
You have progressed with your engagement with hard-to-reach groups during 2009/10 which has increased your score for KLOE 5.2 from a 2 to a 3.	
KLOE 5.3 (data quality)	
Score	3
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	
KLOE 5.4 (managing resources)	
Score	3
Assessment of the trigger confirmed that your arrangements continue to perform at the level assessed in 2008/09.	

Appendix 4 Glossary

Statement on Internal Control

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

The SIC 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 accounts, auditors must give their 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.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 5 Action plan

Recommendations

Recommendation 1

Identify and act upon the opportunities presented by the NHS White Paper whilst continuing to deliver the core business to a high standard.

Responsibility	Trust Board
Priority	Medium
Date	Ongoing
Comments	Trust is actively engaged in identifying, assessing and acting on opportunities presented by NHS White Paper whilst retaining its focus on delivering core business to a higher standard.

Recommendation 2

Work collaboratively with your clinicians and commissioners to address the continued and unsustainable over-performance against contracts.

Responsibility	Trust Board
Priority	High
Date	
Comments	Clinical engagement and collaboration is ongoing through PCT service review, meetings with Nene Commissioning and attendance at clinical summit events. In addition Trust clinicians are engaged in the development of demand management schemes (eg diabetes, MSK etc).

Recommendation 3

Maintain robust challenge of the Trust's financial models to mitigate the risk of not achieving your Cost Improvement Plan (and therefore financial balance) and the generic financial risks facing the public sector from both the NHS White Paper and the autumn spending review.

Responsibility	Trust Board
Priority	High
Date	
Comments	Robust challenge to be provided through 2011/12 budgeting process and preparation for FT application, Transformation Programme and 2011/12 contracting process.

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946