

# Annual Audit Letter

Northampton General Hospital NHS 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.

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 26 May 2011, in advance of the 10 June 2011 deadline set by the Department of Health for NHS 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

I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission.

- Financial resilience: The organisation has proper arrangements in place to secure financial resilience.
- Securing economy efficiency and effectiveness: The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

I issued an unqualified conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources on 26 May 2011.

# 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.

In 2011/12 the reshaping of community health services means some of these have been brought under the Trust's control. This change will bring some expansion and new challenges for the management team, particularly where secondary care is being provided from outside of the main hospital site.

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. Early indications are that they are keen to use commissioning powers to develop community alternatives to acute care. 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. The Trust will need to continue to work with these groups to actively identify and manage their needs and expectations. In addition, the Trust will need to endeavour to ensure its views are reflected in the recommendations from the ongoing Acute Services Reconfiguration.

The Trust reported reasonable financial results in its 2010/11 accounts, although not all Cost Improvement Programmes had been identified at the start of the year. Looking forward, business plans, underpinned by the Trust-wide Transformation Programme, already include significant cost reduction programmes to preserve the underlying financial health of the Trust. These are challenging and the change in financial climate puts further pressure on future financial sustainability. Progress against the 2011/12 Cost Improvement Programme (CIP) needs to be closely monitored to ensure targets are met for 2011/12.

Throughout 2010/11, cash management has posed a challenge for the Trust, and this has continued into 2011/12. Relatively small cash balances could hinder progress against improving on performance against the better payments practice code, and add additional pressures to the Trust's finance team.

# Financial statements and statement on internal control

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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

I issued an audit report including an unqualified opinion on the financial statements on 26 May 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 Trust Board.

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.

# Value for money

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**I considered whether the Trust is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Trust has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>I undertook a detailed two-stage review of the Trust's Cost Improvement Plan (CIP) to support my opinion on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources. I reported my findings from stage 1 of the review in my Audit Plan. Stage 2 of the review focused on the preparation of the 2011/12 CIP.</p> <p>I found that the Trust did not achieve its 2010/11 CIP target, although had exceeded its target in prior years. The Trust did return a surplus for 2010/11. The Trust has also struggled with its cash position during the year, although I found that this had been steadily improving.</p> <p>The 2010/11 shortfall has been incorporated into the 2011/12 CIP target, and considerable resources have been invested into developing a Transformation Plan to ensure financial risks have been identified and can be managed. The Plan aims to achieve a stable financial position to secure the future of the Trust.</p>

Criterion	Key messages
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>As detailed above, my work to support my assessment has been based on the review of the Trust's Cost Improvement Programmes.</p> <p>My review found the Trust has applied robust challenge to the business cases that make up its CIP, taking into account both commissioning intentions and the views of a wide number of stakeholders. Quality was a key focus of these reviews.</p> <p>The Trust has investigated different ways of working to deliver its services Looking ahead, resources have been prioritised to ensure a challenging 2011/12 CIP can be met, including the 2010/11 shortfall, although this is likely to present a significant challenge.</p>

## Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are no issues I need to report to you; however the Trust faces considerable financial challenge in the year ahead and needs to ensure its performance against the new Transformation Plan is regularly monitored and evaluated.

# Other activities

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## **‘Dry-run’ assurance on the Trust’s 2010/11 Quality Report**

On 31 March 2011, Monitor published its NHS Foundation Trust Annual Reporting Requirements 2010/11. The document requires FTs to obtain a limited assurance report, from their external auditor, on the content of the quality report. The Department of Health (the DH) is aiming for a consistent approach to quality accounts assurance for FTs and non-FTs from 2011/12. The DH asked the Audit Commission (the Commission) to make arrangements for auditors to provide assurance on NHS trusts’ 2010/11 quality accounts, as a ‘dry-run’ in the lead up to this. The Commission has mandated its appointed auditors to carry out work on the 2010/11 quality accounts, as part of their work under section 5(1)(e) of the Audit Commission Act 1998 (the Act).

For 2010/11, auditors’ work on NHS trust quality accounts included:

- a review of the NHS trust’s arrangements for satisfying itself that the quality account is fairly stated, and in accordance with relevant requirements; and
- testing of two performance indicators included in the quality account.

I reported findings from my review and testing of the performance indicators to the Trust in a detailed report in June 2011. 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; and
- hosting our annual NHS Final Accounts workshop for Trust finance staff.

# Closing remarks

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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 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
Audit Opinion Plan	April 2011
PbR Data Assurance - Reference Cost Data Quality Audit	April 2011
Annual Governance Report	May 2011
Audit Opinion on the Financial Statements	May 2011
External Assurance Report on the Trust's Quality Report	June 2011
Certificate closing the 2010/11 audit	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

September 2011

# Appendix 1 - Fees

	Actual	Proposed	Variance	Standard Scale Fee
Opinion on the Financial Statements, review of Statement on Internal Control and VFM conclusion	105,000	86,750	18,250	144,600
External assurance on 2010/11 Quality Report	10,800	10,800	0	15,000
<b>Total audit fees</b>	<b>115,800</b>	<b>97,550</b>	<b>18,250</b>	<b>159,600</b>
Non-audit work	0	0	0	0
<b>Total</b>	<b>115,800</b>	<b>97,550</b>	<b>18,250</b>	<b>159,600</b>

As set out in my fee letter dated 3 April 2010, the original fee was based on the assumption that the Trust would become a Foundation Trust (FT) during 2010/11. The fee was adjusted when it became clear that the trust would not become an FT in 2010/11. This was reported to members of the Audit Committee in December 2010.

# Appendix 2 - Glossary

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## **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 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.

## **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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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