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Northampton General Hospital NHS Trust

Annual Audit Letter 2012/13

July 2013

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This letter is addressed to Northampton General Hospital NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett who is the engagement lead to the Trust or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gsi.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2012/13 audit at Northampton General Hospital NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the Trust to publish the letter on the Trust's website.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. We have included a summary of our key recommendations in Appendix A. We have reported all the issues in this letter to the Trust during the year and we have provided a list of our reports in Appendix B.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code) which requires us to report on:

Use of Resources (UoR)	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.
Financial Statements including the Annual Governance Statement	<p>We provide an opinion on the Trust's accounts. That is whether we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year.</p> <p>We also confirm that the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement. We provide a certification to the National Audit Office (NAO) to provide assurance on inputs to the DoH's Resource Accounts. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p>

The Audit Commission also mandated its appointed auditors to carry out assurance work on the 2012/13 quality accounts , as part of their duties under section 5(1) of the Audit Commission Act 1998. We provide a limited assurance opinion on the Trust's report against the guidance, their consistency with other specified documentation and over detailed testing on two performance indicators. The 'limited' reference relates to the limited procedures we were required to complete rather than any limitations on the assurance opinion given.

Adding value from the External Audit Service

We have added value to the Trust from our service throughout the year through our:

- Attendance at meetings with members of the Executive Team and Audit Committee to present our audit findings, broaden our knowledge of the Trust and to provide insight from sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;

- A review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

Our fee for 2012/13 was £69,850 excluding VAT. This was in line with the fee agreed at the start of the year with the Trust's Audit Committee.

Acknowledgement

We would like to take this opportunity to thank the officers of the Trust for their support throughout the year.

This section summarises the key messages from our work during 2012/13.

Overall financial results and other key messages

The Trust has robust systems and processes in place to monitor its financial performance and to produce effective and realistic financial monitoring reports including the year-end financial statements.

A small surplus of £0.4m was achieved at the end of the financial year against a planned surplus of £1m. However, the financial position of the Trust remained volatile during the course of the year and at the end of Month 9 the Trust was forecasting upwards of a £10m year-end deficit. The key financial challenges facing the Trust were:

- Contracting for a reduced level of activity that didn't materialise – the Trust reduced its resource and staffing levels to match the reduced level of contracted income/activity. However, when the planned reductions in activity didn't materialise this led to additional cost pressures as staff had to be recruited on a short-term basis at premium rates to meet demand. The Trust was successful in negotiating additional income of £7m from its commissioners towards the end of the year to cover these costs. The higher level of activity experienced in 2012/13 has been included in the baseline budget for 2013/14 onwards which should mitigate against this risk going forwards; and
- Accident and Emergency pressures – the Trust experienced an unprecedented increase in the number of attendances at its Accident and Emergency Unit during 2012/13 with an 11% increase in the number of people presenting at the unit compared to the previous year and an increase of 1076 (3%) emergency admissions into the Hospital over the same period which has brought with it increased cost pressures;

In order to meet these, and other challenges, the Trust took the decision to reduce its Cost Improvement Programme (CIP) from an ambitious £16m (6% of turnover) to £10.5m in August 2012, thereby releasing some £5.5m to address the cost pressures. However, this decision in turn exacerbated historical cash-flow problems experienced by the Trust as planned cost savings were not delivered and the Trust was forced to obtain a £4m short-term loan from the Department of Health in order to meet its liabilities during quarters 2 and 3 of the year.

By the end of 2012/13 the Trust had repaid this loan and the combination of the additional £7m income together with other remedial action implemented by the Trust Board brought about the £0.4m surplus.

Overall financial results and other key messages

Looking to the future the Trust has:

- Included the higher level of activity experienced in 2012/13 in its baseline budget for 2013/14 onwards which should mitigate against the risk of over-performance against contract going forwards; and
- Set a CIP target of £13m (5% of turnover) for the year – again this is a challenging target and national data suggests that most trusts struggle to deliver any CIPs above 3.4% of annual turnover each year.

However, a number of challenges remain and these include:

- The Trust has set a deficit budget of £4.8m for 2012/13 after taking account of the £13m CIP programme and the additional £7m built into the budgeted baseline position. It is essential that the CIP programme is delivered to prevent this deficit from growing and to this end two key actions are required by the Trust Board:
 - Develop and implement a realistic and robust recovery plan to address the £4.8m budget deficit;
 - Support radical and innovative action to deliver the £13m CIP programme; and
 - Reduce reliance on non-recurring and short-term solutions to achieve financial balance and stability

Additionally, the Trust is moving towards greater joint working and joint arrangements with neighbouring NHS organisations to improve the quality of services offered to patients through its “*Healthier Together*” work. Whilst such arrangements may be more cost effective it is unlikely that they will address the underlying financial issues at the Trust and it is therefore important that the Trust Board takes action to bring about financial balance and stability before joint working arrangements become fully embedded.

Use of Resources

We concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources with the exception of:

- the volatility of the financial position during 2012/13 combined with the lack of a recovery plan to address the £4.8m budget deficit which impacts on the financial resilience of the Trust; and
- despite reducing the CIP by £5.5m during 2012/13 the Trust was not successful in addressing pressures within its Accident and Emergency (A&E) unit and consequently failed to achieve the 4 hour A&E waiting time target. Data for the full year shows that approximately 91.5% of patients were treated within 4 hours of arriving at A&E against a national standard of 95% although at the year end this performance had fallen to 82.5% which highlights weaknesses in the Trusts arrangements for challenging economy, efficiency and effectiveness.

These issues, together with those identified previously in relation to financial results, have been compounded by the high level of turnover of senior staff at the Trust, particularly at Board level which brings with it increased risks to the ownership and delivery of plans to achieve financial stability and improve quality of services. It is essential that the Board is able to make long-term substantive appointments if it is to drive improvement and address the current failings within the organisation.

Financial Statements including the Annual Governance Statement	<ul style="list-style-type: none"> ■ We issued an unqualified opinion on the Trust's accounts on 4 June 2013. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. ■ We have also confirmed that the Trust have complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement. ■ There were no significant adjusted or unadjusted audit differences in the financial statements. ■ There were no significant matters which we were required to report to 'those charged with governance'.
Whole of Government Accounts	<ul style="list-style-type: none"> ■ We issued an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Whole of Government Accounts submission with no exceptions.
Recommendations	<ul style="list-style-type: none"> ■ We have raised four recommendation as a result of our 2012/13 audit work. These are summarised in Appendix A. ■ The Trust has been good at implementing agreed audit recommendations from prior years.

Quality Accounts

From our mandated work on the Trust's Quality Account:

- The Trust achieved a limited assurance opinion on compliance with the Quality Accounts Regulations.
- The Trust achieved a limited assurance opinion on consistency with other specified information.
- The Trust achieved a limited assurance opinion on the indicators in the Quality Account.

The 'limited' reference relates to the limited procedures we were required to complete rather than any limitations on the assurance opinion given. Achieving a limited assurance opinion is the highest possible level of assurance available.

Detailed testing was undertaken on two of the performance indicators included in the Quality Account. The two indicators tested were:

- Mandated indicator: Percentage of patient safety incidents resulting in severe harm or death.
- Local indicator: Emergency re-admissions within 28 days of discharge from hospital

We reported a risk at every Trust relating to the data collected for patient safety incidents as the mandated indicator relies on every incident being reported (as the denominator). The nature of the indicator means it is not possible to obtain sufficient audit assurance that the data used to calculate the indicator is complete, i.e. it is not possible to obtain sufficient audit assurance that every incident is being reported. We also noted that the indicator relies heavily on clinical judgements in the classification of an incident as "severe harm". Within the scope of this engagement we have not deployed clinical expertise to challenge and assess these judgements. There is therefore an inherent uncertainty in the presentation of the indicator.

Public Interest Reporting

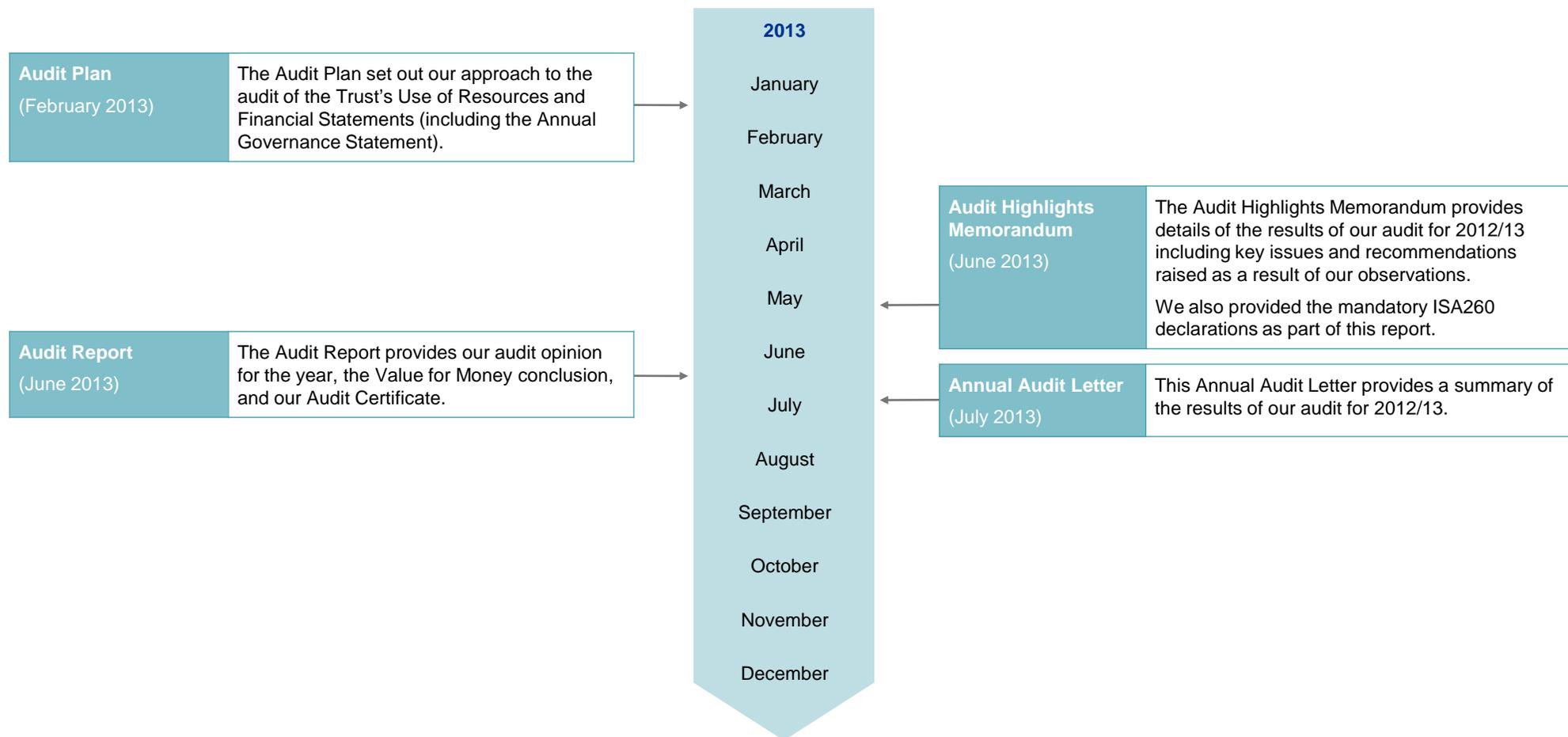
We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. We did not issue a report in the public interest or refer any matters to the Secretary of State in 2012/13.

Recommendations Raised in 2012/13

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
1	● High	<p>Use of Resources</p> <p>Prepare and implement the financial recovery plan as soon as practicable to demonstrate how the Trust is going to address the £4.8m budget deficit, deliver the 2013/14 CIP programme and reduce reliance on one-off and non-recurring solutions to achieve financial balance and stability. The plan also needs to reflect the requirement to deliver improvements in clinical performance and recognise and mitigate cost implications of this.</p>	<p>The Trust accept the matters raised by this need for a Financial Recovery Plan to cover the issues raised. The Management Response is split into two discrete areas, recognising the two different types of activities which are required.</p> <p>Achievement of the existing £4.8m deficit plan and associated CIP shortfall – The Trust has already focussed management effort to ensure that the existing plan in terms of performance against budget and CIP delivery are met in full. This is considered a pre-requisite of any FRP. Regular performance management meetings provide a framework in which these matters can be monitored and escalated as necessary. Month 1 financial results have demonstrated performance consistent with this plan from an income and expenditure stand point. In addition the level of unidentified CIP has reduced significantly from the value reported in this report. A contingency CIP of £1.95m has also been set internally above the original plan to mitigate any slippage. The Transformation Group continues to work hard with the Trust to identify the remaining unidentified gap whilst continuing the focus on delivery.</p> <p>Financial Recovery Plan – When setting the £4.8m deficit plan investment reserves in Nursing and A&E were identified to support improvements in clinical performance. In addition the ‘side letters’ to the contract which covered significant aspects of income from CCGs in areas such as re-investment of fines, readmissions, CCG investment funds and Winter Pressures funding were not included within the original plan. Discussions are also taking place with the TDA to establish additional sources of support (recurrent and non-recurrent). The side letter and discussions with the TDA are on-going and are expected to contribute towards the development of a robust FRP. It is also noted that discussions continue regarding possible reconfiguration of Acute services across Northamptonshire which may also become a component of the recurrent FRP.</p> <p>An update on these matters will be provided by the Director of Finance in August 2013.</p>

This appendix summarises all recommendations raised in 2012/13.

No.	Risk	Issue, impact and recommendation	Management response/responsible officer/due date
2	 Medium	Related party transactions The Trust checks the register of interests on an annual basis to identify staff that have interests in outside companies and organisations. However, it does not then check the purchase or sales ledger system for evidence of any transactions with those companies. Consequently the control is ineffective and disclosures may be incomplete. Following audit enquiries the additional check has now been undertaken for 2012/13 but should be carried out as a matter of routine in future.	The Trust accepts that these entries had not been fully reviewed against the sales and purchase ledger and that additional checks were carried out for 2012/13. The Trust will implement a quarterly review to undertake this review for future financial years. Responsibility for this work will rest with the Director of Finance.
3	 Low	IT Backup procedures Backups are retained on site at the Trust. This increases the risk that backups will not be available in the event of a major disaster across the site. The Trust should consider storing backups off site in the future.	The Trust accepts that it currently stores its backup tapes onsite and that this may cause an increased risk in exceptional circumstances. The tapes are stored remotely from the data centre in a secure environment which mitigates some of the risk. The Trust has reviewed its policy regarding offsite storage and in June 2013 the Trust Board approved the business case for investment in a second data centre to provide improved resilience and disaster recovery arrangements. The tender for this second data centre is being issued July 2013. Responsibility for the work rests with the Chief Operating Officer.
4	 Low	IT security policy The Trust's Information Security Policy was due for review in November 2010 but has not yet been updated. There is a risk that the policy is out of date and no longer appropriate to the Trusts circumstances, particularly as a new IT strategy has been implemented since the security policy was first drafted. The policy should be reviewed and updated as soon as possible.	The Trust accepts that it's Information Security Policy has not yet been updated and has commenced the update of this policy immediately. The revised policy will be available in July 2013. Responsibility for this work will rest with the Head of Corporate Affairs supported by the Deputy Director of ICT as appropriate.





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