
The Whittington Hospital NHS Trust

Annual Audit Letter

Audit 2006/07

October 2007



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; and
- 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/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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Contents

Summary report	4
Key messages	4
Recommendations	4
Purpose, responsibilities and scope	5
Audit of the accounts	6
Accounting issues	6
Trust's use of resources	7
Value for money conclusion	7
Auditor's local evaluation judgement	7
Financial standing	8
Specific risk-based work	9
National Fraud Initiative	11
Closing remarks	13

Summary report

Key messages

- 1 I gave an unqualified opinion on the Trust's accounts on 22 June 2007, in advance of the statutory deadline.
- 2 I concluded that the Trust has put proper arrangements in place to secure economy, efficiency and effectiveness in the year.
- 3 I concluded that the Trust has performed well against four of the five areas assessed under the Auditor's Local Evaluation (ALE). The final overall score, which will be used to inform the Healthcare Commission's assessment of use of resources, will be available in September 2007. My detailed report has identified good practice followed by the Trust and areas for improvement.
- 4 The Trust has performed well in delivering a surplus of £1.985 million this year, which was considerably greater than its target surplus, and entailed delivering a savings programme of £11 million in year.
- 5 I have undertaken reviews of the Trust's arrangements for reflecting the introduction of Payment by Results, and its Transformation Process. I concluded that the Trust had made good progress in dealing with the increasingly challenging financial and operational environment, and agreed actions with the Trust to improve its arrangements further.
- 6 The Trust has made good progress in following up on data matches relating to payroll arising from the National Fraud Initiative (NFI). It now needs to put in place a process for following up on matches relating to its payments system.

Recommendations

- 7 Ensure that the Trust's accounts for 2007/08 are submitted to audit free from material error.
- 8 Establish an action plan for implementing the recommendations from my report on ALE, and monitor progress so that areas for improvement are achieved by the end of the 2007/08 financial year.
- 9 Monitor progress in implementing the recommendations agreed as a result of my specific risk-based reviews, and ensure that they are implemented within agreed timescales.
- 10 Investigate the matches in the payments system from the National Fraud Initiative and take appropriate action to cleanse inaccurate data, or recover any monies lost by the Trust.

Purpose, responsibilities and scope

- 11 This Annual Audit Letter (letter) summarises the key issues arising from my work carried out during the year. I have addressed this letter to the directors of the Trust, as it is the responsibility of the Trust to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Trust in meeting its responsibilities.
- 12 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition, the Trust is planning to publish this letter on its website.
- 13 As your appointed auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I 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.
- 14 Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its annual health check.
- 15 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that I consider the Trust should be addressing. I have listed the reports issued to the Trust relating to the 2006/07 audit at the end of this letter.

Audit of the accounts

- 16 I issued an unqualified opinion on the Trust's accounts on 22 June 2007, before the deadline set by the Department of Health. In my opinion, the accounts give a true and fair view of the Trust's financial affairs and of its income and expenditure for the year.
- 17 Before giving my opinion I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2006/07 audit. I issued this report on 20 June 2007, and only the most significant issues arising are repeated in this letter.

Accounting issues

- 18 I reported to the Audit Committee significant adjustments that were required to the draft accounts originally submitted by the Trust, before I could give my opinion. All these adjustments were made, and the final set of accounts give a true and fair view of the Trust's financial affairs. The adjustments related to:
 - a transfer of £14.8 million between two reserves, relating to the disposal of one of the Trust's buildings as part of the PFI contract;
 - a transfer of £1.25 million between two reserves relating to the revaluation of another of the Trust's buildings, which was originally disclosed as a prior period adjustment, but was corrected to be disclosed as a transaction in the 2006/07 financial year; and
 - a transfer of £1.3 million between two reserves, relating to the difference between depreciation charged in the year, and the depreciation that would have been charged if the Trust's assets were valued at their original cost.
- 19 There were no other significant issues that I reported to the Audit Committee.

Recommendation

R1 Ensure that the Trust's accounts for 2007/08 are submitted to audit free from material error.

Trust's use of resources

- 20 I am required to conclude on whether 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.
- 21 I am 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 auditor's local evaluation (ALE). The Audit Commission provides the scores to the Healthcare Commission (HC) to use as part of its annual health check.

Value for money conclusion

- 22 I concluded that the Trust had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Auditor's local evaluation judgement

- 23 I assessed the Trust's arrangements in five elements. I scored each area from 1 to 4 (1= inadequate and below minimum standards, 2 = adequate, 3 = performing well and 4 = performing strongly). I issued a detailed report supporting my assessment and highlighting areas for improvement to the Trust in August 2007.

Table 1 ALE scores

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Likely overall assessment of the Audit Commission	3 out of 4

(Note: 1=lowest, 4=highest)

- 24 The Trust is performing well against four out of five of the elements of my assessment, and has met minimum requirements in the fifth. This represents a considerable improvement in its performance since 2005/06, as the Trust has improved its score in four of the five elements, although the performance in financial reporting has slipped this year.

- 25 My detailed report on ALE sets out full details of the improvements made by the Trust and of the areas where further progress is required to achieve a higher score. The key areas of improvement achieved by the Trust this year have been to:
- achieve a cost improvement programme of £11 million in the year, thereby delivering a surplus of £1.985 million and bringing the Trust into a position of cumulative surplus;
 - provide risk management training to all Board members and senior staff;
 - raise awareness of counter fraud issues amongst Trust staff through training provided by the Local Counter Fraud Specialist;
 - refine its process for setting objectives in line with national priorities and those of its partners and the wider community;
 - implement robust arrangements to ensure that data quality is being maintained; and
 - implement a transformational leadership development programme and leadership strategy in readiness for its application to become a foundation trust.
- 26 The reduction in the Trust's score for financial reporting reflects the material adjustments made to the Trust's draft financial statements, as set out in the earlier section on the audit of the accounts.
- 27 The main areas where further development is required are to:
- finalise the strategic outline case for redeveloping the Trust's estate, and ensure that this is consistent with the Trust's financial and service plans;
 - ensure that all staff adhere to the Nolan principles of public life and exhibit high ethical standards;
 - demonstrate how consultation with patients and user groups has been used to drive changes to services; and
 - ensure that the material errors in this year's draft accounts do not recur.

Recommendation

R2 Establish an action plan for implementing the recommendations from my report on ALE, and monitor progress so that areas for improvement are achieved by the end of the 2007/08 financial year.

Financial standing

- 28 The Trust met the majority of its financial targets for 2006/07, as summarised in Table 2. The Trust's key achievement this year has been to deliver a surplus of £1.985 million, which was considerably above its target surplus of £1.3 million, and enabled it to clear the remaining cumulative deficit from previous years.

Table 2 Financial performance 2006/07

Target	Performance
The Trust is required to break even on income and expenditure.	The Trust achieved an in-year surplus of £1.985 million. Target achieved.
The Trust is required to operate within its external financing limit.	The Trust met its target of £4.323 million. Target achieved.
The Trust is required to operate within its capital resource limit.	The Trust achieved a charge of -£16 million against its Capital Resource Limit of £9.256 million, an undershoot of £25.257 million. Target achieved.
The Trust's Capital Cost Absorption Rate should be between 3 and 4 per cent.	The Trust's Capital Absorption Rate was 3.3 per cent. Target achieved.
The Better Payment Practice Code requires the Trust to pay all undisputed invoices by the due date or within 30 days, whichever is later.	The Trust paid a total of 95.7 per cent of NHS trade creditors within target, but only 83 per cent of non-NHS trade creditors were paid within the target timescale. Target not achieved.

- 29 The Trust should improve its procedures to ensure that undisputed non-NHS invoices are paid within the target 30 day period.
- 30 In 2007/08, the Trust has been set a target surplus equivalent to 1 per cent of its turnover, that is, £1.4 million. At the end of June 2007, the Trust was showing a surplus of £1.654 million against a budgeted surplus of £1.290 million, and forecast that it would achieve its target surplus for the year.
- 31 The Trust will need to continue to manage its income and expenditure robustly to ensure that it delivers the required level of surplus whilst continuing to deliver quality services to users.

Specific risk-based work

- 32 I also carried out specific pieces of work as follows.
- Review of Payment by Results.
 - Review of Transformation Process.

- 33 The detailed findings from these reviews can be found in the reports itemised in Table 3 in the 'Closing remarks' section. These reviews have been reported to the Audit Committee during the year, and the key findings are summarised below.

Review of payment by results

- 34 I reviewed how the Trust had addressed the challenges arising from the introduction of payment by results, and the changes to the environment in the NHS, including the increased focus on patient choice and the introduction of practice based commissioning. My review covered:
- the Trust's awareness and assessment of the environment in which it operates;
 - whether the Trust has reviewed the services that it provides and their suitability to potential users, now and in the future;
 - whether the Trust had sufficient suitable resources to operate effectively in the new environment; and
 - how the Trust has communicated with potential service users and local stakeholders.
- 35 I concluded that the Trust had made good progress in dealing with the challenges of the new environment, and was developing good relationships with stakeholders and potential service users to ensure that its services met their needs. The Trust had determined which services were its strength areas and was evaluating the financial viability of these areas in the future. I found that the Trust had started to collect more regular feedback from service users to ensure that its services and performance met their requirements, and was starting to monitor key performance indicators at Board level. I identified some areas for improvement:
- review threats to existing levels of activity from other providers, both in the NHS and independent sector;
 - review systematically the impact, cost and benefit to patients of service developments arising out of consultation with users;
 - develop further relationships with external bodies and support networks to scrutinise and challenge the Trust's work on marketing its services; and
 - co-ordinate the Trust's response to user feedback, and ensure that staff project a positive image of the Trust.

Review of transformation process

- 36 I reviewed the Trust's transformation process for improving financial management and delivering a cost improvement programme of £11 million during 2006/07. I considered the level of understanding and awareness of the process within the Trust, and the future sustainability of the process in the light of the Trust's decision to decommission the dedicated Transformation Team.

- 37 I found that there was a high degree of awareness throughout the Trust of the aims of the transformation process, and the necessity for the Trust to deliver long-term reductions in its cost base. The Transformation Team engaged with clinical staff to ensure that tangible savings were delivered. As a result of this level of engagements with staff, the Trust was able to deliver a significant programme of savings this year.
- 38 The purpose of disbanding the team is to reflect that it is the responsibility of all staff in the Trust to help deliver financial balance. Nonetheless, the lessons from the process will continue to be important, as the Trust needs to demonstrate its financial viability in the future if it is to become a foundation trust. I agreed actions arising from my review with the Trust. These are to:
- ensure that all directorates, both clinical and corporate, have sufficient capacity to deliver the required levels of cost improvements in the future;
 - consider how to minimise the use of one-off savings to achieve financial balance in the future;
 - ensure that local commissioners agree to proposed service changes to deliver future savings; and
 - ensure that users are involved in discussions on savings proposals which impact on services for patients.

Recommendation

R3 Monitor progress in implementing the recommendations agreed as a result of my specific risk-based reviews, and ensure that they are implemented within agreed timescales.

National Fraud Initiative

- 39 The National Fraud Initiative (NFI) is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in January 2007.
- 40 The Trust's results were fed back in two tranches. The Trust has investigated the majority of the first tranche of 490 matches. This represents good progress compared with the majority of its peers.
- 41 The second tranche of 7058 matches relate to potential duplicate payments in the Trust's payments system. The Trust needs to investigate the matches to ascertain whether they are as a result of inaccuracies in the data submitted to the NFI team or due to control weaknesses in the payments system, and take action to recover any monies lost if appropriate.

Recommendation

R4 Investigate the matches in the payments system from the National Fraud Initiative and take appropriate action to cleanse inaccurate data, or recover any monies lost by the Trust.

Closing remarks

- 42 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present the letter at the Audit Committee, and will provide copies to all Board members or directors.
- 43 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.

Table 3 Reports relating to the 2006/07 audit

Report	Date of issue
Audit plan	March 2006
Report to those charged with governance	June 2007
Opinion on financial statements	June 2007
Value for money conclusion	June 2007
Auditor's local evaluation	September 2007
Review of payment by results	June 2007
Review of transformation process	June 2007
Annual audit letter	October 2007

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

Philip Johnstone
Engagement Lead

October 2007