

Annual Audit Letter

The Whittington Hospital NHS Trust

Audit 2007-2008

September 2008



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Status of our reports

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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Summary

Key messages

- 1 I gave an unqualified opinion on the Trust's accounts on 20 June 2008, in advance of the statutory deadline. Our review found that the standard of the accounts presented for audit had improved on the previous year.
- 2 I concluded that the Trust had put proper arrangements in place to secure economy, efficiency and effectiveness in the year.
- 3 I concluded that the Trust performed well against four of the five areas assessed under the Auditor's Local Evaluation (ALE), and performed strongly in financial standing. The final overall score of 3 (performing well) will be used to inform the Healthcare Commission's assessment of use of resources. My detailed report identified some areas where the Trust had improved its arrangements since my previous assessment, as well as highlighting further areas where improvements are required in 2008/09.
- 4 The Trust broke even on income and expenditure for the fourth successive year, and delivered a surplus of £1.421 million this year, which was in line with its budget. However, the Trust will need to take robust action to deliver its challenging level of savings for 2008/09 if it is to achieve its target of a £2 million surplus.
- 5 The Trust has made good progress in following up on data matches arising from the Audit Commission's National Fraud Initiative (NFI) and has taken appropriate action on the frauds identified.
- 6 The Audit Commission also issued a clinical coding audit report as part of its Payment by Results Data Assurance Framework. This concluded that there were no significant issues with the accuracy of coding at the Trust, but highlighted a number of recommendations to improve processes in line with best practice.

Recommendations

- 7 Detailed recommendations for improvement are set out in the reports I have issued throughout the year which are itemised in Table 3 at the end of this letter. The key actions for the Board are as follows.

Recommendation
R1 Establish and implement arrangements to meet all the financial reporting requirements of Monitor in readiness for the Trust's planned authorisation as a NHS foundation trust.

Recommendations
R2 Implement systems to quantify the income due in respect of patients who are receiving healthcare as at 31 March, and include this in the Trust's accounts, as required by Monitor's Financial Reporting Manual.
R3 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 2008/09 financial year.
R4 Monitor achievement of the Trust's financial plan and take prompt action to address variances and additional risks which impact on its delivery.
R5 Address the recommendations made in the Audit Commission report on the Payment by Results Data Assurance Framework to improve the accuracy of clinical coding and thus data quality.

Purpose, responsibilities and scope

- 8 This Annual Audit Letter (letter) summarises the key issues arising from our work carried out during the year. I have addressed this letter to the directors and members 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.
- 9 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 on its website.
- 10 I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.
- 11 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.
- 12 Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health Check.
- 13 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 2007/08 audit at the end of this letter.

Audit of the accounts

- 14** I issued an unqualified opinion on the Trust's accounts on 20 June 2008, 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.
- 15** Before giving my opinion I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2007/08 audit. I issued this report on 10 June 2008, and only the most significant issues arising are repeated in this letter.

Accounting issues

- 16** I reported to the Audit Committee that only minor adjustments were required to the draft accounts originally submitted by the Trust, which is a considerable improvement from 2006/07, when a number of significant adjustments were made.
- 17** I made two recommendations in my report to the Audit Committee, relating to improvements that will need to be made when it is authorised as a NHS foundation trust, which the Trust anticipates will occur during the 2008/09 financial year:
- the Trust's annual report will need to be finalised at the same time as its accounts, as both documents will be submitted to Monitor (the regulator of NHS foundation trusts) at the same time; and
 - the Trust will need to be able to quantify and include in its accounts income relating to patients who are receiving healthcare on 31 March.
- 18** There were no other significant issues that I reported to the Audit Committee.

Recommendations

- R1** Establish and implement arrangements to meet all the financial reporting requirements of Monitor in readiness for the Trust's planned authorisation as a NHS foundation trust.
- R2** Implement systems to quantify the income due in respect of patients who are receiving healthcare as at 31 March, and include this in the Trust's accounts, as required by Monitor's Financial Reporting Manual.

Trust's use of resources

- 19** 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.
- 20** 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 themes. 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

- 21** 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 (including financial standing)

- 22** I assessed the Trust's arrangements in five themes. I scored each theme 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 September 2008.

Table 1 ALE scores

Theme	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	4 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

- 23** Overall, the Trust is performing well against all of the elements of my assessment, and is performing strongly in financial standing. The Trust has improved its score in both financial reporting and financial standing and has also consolidated its arrangements in a number of the areas for improvement highlighted in my report last year.

24 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:

- improve the quality of accounts presented for audit so that they were free from material errors;
- deliver a cost improvement programme totalling £8.4 million and thus achieve a surplus of £1.4 million, making 2007/08 the fourth successive year that the Trust has achieved broken even on its income and expenditure;
- fully investigate matches identified by the Audit Commission's National Fraud Initiative (NFI) data matching exercise and identify one member of staff who was not entitled to work in this country and another who was working for another employer whilst claiming to be sick: both these individuals have been dismissed; and
- improve awareness and demonstrate embeddedness of the Trust's arrangements for ensuring that staff act with probity

25 The main areas where the Trust needs to develop further are to:

- demonstrate its commitment to the sustainable use of resources, including establishing plans to reduce its use of energy, and minimise waste;
- implement the recommendations arising from the Audit Commission's Payment by Results Data Assurance Framework report to improve the quality of recording data;
- carry out benchmarking of its corporate services to ensure they are providing value for money; and
- evaluate the costs and benefits of electronic procurement to ensure the Trust is achieving savings from it.

Recommendation

R3 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 2008/09 financial year.

Financial standing

26 The Trust met the majority of its financial targets for 2007/08, as summarised in Table 2. The Trust's key achievement this year has been to deliver a surplus of £1.421 million, in line with its target for the year.

Table 2 Financial performance 2007/08

Target	Performance
The Trust is required to break even on income and expenditure.	The Trust achieved an in-year surplus of £1.421 million. Target achieved.
The Trust is required to operate within its external financing limit.	The Trust met its target of -£4.757 million. Target achieved.
The Trust is required to operate within its capital resource limit.	The Trust made a charge of £8.744 million against its Capital Resource Limit of £10.273 million, an undershoot of £1.529 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 3.4 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 89.9 per cent of NHS trade creditors within target, but only 83.5 per cent of non-NHS trade creditors were paid within the target timescale. Target not achieved. The Trust's performance was worse than in 2006/07.

Source: 2007/08 accounts

- 27** The Trust should improve its procedures to ensure that undisputed invoices are paid within the target 30-day period.
- 28** In 2008/09, the Trust has budgeted to deliver a surplus of £2 million. At the end of June, it had incurred a deficit of £0.79 million, compared to a budgeted deficit at that point of £0.42 million, and was forecasting that it would achieve a surplus for the year of £0.9 million.
- 29** The Trust has highlighted in its reports to the Trust Board a number of potential risks to achievement of this position that will require robust management if it is to achieve its target surplus for the year. Whilst there is a process in place for monitoring the delivery of the Trust's cost improvement programme for the year, there is already considerable slippage against the target to date. The Trust needs to ensure that it continues to take prompt and robust action to manage its financial position at the same time as ensuring that the quality of services provided to patients is not compromised.

Recommendation

R4 Monitor achievement of the Trust's financial plan and take prompt action to address variances and additional risks which impact on its delivery.

National Fraud Initiative

- 30** 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.
- 31** The Trust has made good progress in investigating the potential matches highlighted by this exercise, and identified two members of staff who were dismissed as a result. One was not entitled to work in the United Kingdom, and the other had been working for another employer whilst on sick leave.

Payment by Results Data Assurance Framework

- 32** The Audit Commission's Payment by Results (PbR) Data Assurance Framework is designed to support the improvement of data quality standards that underpin the accuracy of coding and costing under PbR. The Framework is a rolling programme of work which includes an independent, targeted external clinical coding programme covering all acute trusts in England, completed by qualified accredited clinical coders.
- 33** The external clinical coding audit was carried out at the Trust in December 2007 and the results reported to the Trust and an action plan agreed. A further report was then issued to Islington Primary Care Trust as the host PCT for this Trust.
- 34** Overall, the report identified some areas of good practice at the Trust, but highlighted some areas where its policies and procedures differed from national standards. However, it concluded that, based on the sample tested, there were no significant issues with the accuracy of coding at the Trust. The report set out a number of recommendations for the Trust to improve the accuracy of clinical coding, in line with best practice.

Recommendation

- R5** Address the recommendations made in the Audit Commission report on the Payment by Results Data Assurance Framework to improve the accuracy of clinical coding and thus data quality.

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 and will provide copies to all Board members.
- 36** 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 issued

Report	Date of issue
Audit plan	May 2007
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for money conclusion	June 2008
Auditor's local evaluation	September 2008
Annual audit letter	October 2008
External clinical coding audit report from Payment by Results Data Assurance Framework	May 2008

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

Philip Johnstone
Engagement Lead
October 2008

The Audit Commission

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, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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