

Annual Audit Letter

The Whittington Hospital NHS Trust
Audit 2008-2009

DRAFT

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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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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I issued an audit report, including an unqualified opinion on the financial statements, on 11 June 2009.

Financial Statements

- 2 The financial statements were submitted to us before the deadline, and did not contain any material or significant errors. Two non-trivial amendments and three unadjusted non-trivial misstatements, along with the Trust's reasons for not amending, were reported.
- 3 I did not identify any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 4 However during the interim audit, I did find that the human resources (HR) controls in payroll were weak and our substantive testing of the financial statements found difficulty in agreeing the current payroll information on the HR system back to prime documentation.

Use of resources

- 5 I issued an unqualified value for money conclusion, stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, on 11 June 2009.

Table 1 **Audit fees**

	Actual	Proposed	Variance
Audit of accounts and the statement on internal control	£89,750	£89,750	£0
Value for money work	£18,250	£18,250	£0
Total audit fees	£108,000	£108,000	£0
Non-audit work	£0	£0	£0
Total	£108,000	£108,000	£0

Actions

- 6 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 7 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Recommendation

R1 HR must confirm that all starters, leavers and change of circumstances forms are fully authorised by all staff, line managers and the HR function as appropriate, before the information is transferred to the ESR system and processed in payroll.

R2 HR information and documentation and all signed forms must be retained on personnel files / ESR system for audit trail purposes.

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Statement on internal control

The Trust's financial statements and annual governance statement are an important means by which the Trust accounts for its stewardship of public funds.

Significant issues arising from the audit

- 8 The main weakness identified during the audit was found in the authorisation of HR forms and the audit trail to prime documentation to support the entries in payroll expenditure.
- 9 Our testing at interim audit found control weaknesses in the authorisation of starters, leavers and change of circumstances forms under HR in the payroll system. From our sample testing, 6 termination forms and 2 change of circumstances forms were not signed by either the employee, line manager / HR or both. From their testing, Internal Audit also found that 9 starter forms had not been authorised by the line manager or HR. The Local Counter Fraud Specialist also raised concerns regarding the potential impact of non authorisation of starter forms during the year.
- 10 Our findings from our substantive testing at final accounts confirmed the issues that were identified previously at our interim visit. We also found it difficult to agree the payroll information back to prime documentation in HR files for our sample of 37 permanent staff. We did not audit one 'clean' case where the amounts actually paid to the individual matched the same amount in prime documentation in the HR personnel record.
- 11 However, we did manage to establish for each case tested, that the person was an employee of the Trust, was entitled to be paid for work, and that the amount paid was reasonable for the role being performed.

Recommendation

R1 HR must confirm that all starters, leavers and change of circumstances forms are fully authorised by all staff, line managers and the HR function as appropriate, before the information is transferred to the ESR system and processed in payroll.

R2 HR information and documentation and all signed forms must be retained on personnel files / ESR system for audit trail purposes.

Material weaknesses in internal control

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

Accounting Practice and financial reporting

- 13 I considered the qualitative aspects of your financial reporting and did not identify any significant weaknesses.

Use of resources

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

- 14** In forming my scored ALE judgements, I have used the methodology set out in the 'ALE for Trusts' guidance. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 15** 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.
- 16** The Trust's ALE scores for the five key areas are shown in Table 2 below. Key findings and conclusions for the five areas, and the underlying KLOE, are summarised in Appendix 1.

Table 2 ALE scores

Key area	Scored judgement
Financial reporting	3 (3 in 2007/08)
Financial management	4 (3 in 2007/08)
Financial standing	4 (4 in 2007/08)
Internal control	3 (3 in 2007/08)
Value for money	3 (3 in 2007/08)

- 17** Improvements in financial management, as well as demonstrating notable practice in robust costing information, forecasting, management information and cost improvement programmes, raised the scored judgement for financial management from a level 3 to a level 4 in 2008/09.

VFM Conclusion

- 18** 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 1.
- 19** I issued an unqualified conclusion stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources on 11 June 2009.

Closing remarks

- 20** 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 7 September 2009 and will provide copies to all committee members.
- 21** 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
Annual Governance Report	9 June 2009
Final Accounts memo	23 June 2009

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- 22** 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.

Philip Johnstone
District Auditor
September 2009

Appendix 1 – ALE key findings and conclusions

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

Financial reporting: overall score 3

KLOE 1.1 (annual accounts) Score VFM criterion met	3 Yes
Key findings and conclusions	
<p>The Trust produced a full set of accounts, including notes and disclosures, in line with the statutory deadline for submission of draft statements and audited statements. The accounts complied with the DoH Manual for Accounts and contained only trivial errors. Of these, two were amended and 3 non-amended by the Trust with reasons given. An unqualified opinion was given on the Trust's accounts.</p> <p>The accounts, together with a set of working papers supporting all entries in the statements, were provided in accordance with the agreed timetable for the audit, and the Trust responded promptly to further requests for information. The accounts were submitted to the Audit Committee, accompanied by an explanatory paper providing interpretation of the accounts and highlighting key issues to assist the Committee's understanding of the accounts. The Trust also had a clear link between the budget, in-year forecasts and actual year end position, which resulted in timely and efficient close down of the accounts. The Trust has good arrangements for the implementation of IFRS.</p>	
KLOE 1.2 (external accountability) Score VFM criterion met	3 Yes
Key findings and conclusions	
<p>The annual report was produced for audit in line with the agreed timescale and was consistent with the financial statements. The Trust made its most recent annual report and audit letter available on its website on a timely basis, and uploads agendas, minutes and papers for its Board meetings onto its website on a timely basis. The financial content of the annual report demonstrates some effort by the Trust to explain the key features during the year, which aids comprehension by the lay reader. The Trust has consulted with users and staff about the format of the annual report and reflected feedback about content within the report.</p>	

Appendix 1 – ALE key findings and conclusions

Financial management: overall score 4

<p>KLOE 2.1 (financial strategy and budgets)</p> <p>Score</p> <p>VFM criterion met</p>	<p>4</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust's Integrated Business Plan contains key strategic objective areas, discussed and consulted with key partners and other stakeholders and is consistent with the Trust's plans. An annual balanced revenue budget, based on realistic projections about pay, inflation and other known pressures, with any savings required clearly identified within the budget (and no significant levels of unidentified savings), has been set and approved by the Board.</p> <p>The Trust has implemented financial savings, through CIP, on a largely recurrent basis in order to achieve the surplus of approximately 1% of the total budget. This plan is supported by action plans that are supported by milestones and monitoring arrangements. The Trust met the new Monitor Metrics for liquidity ratio, EBITDA margin and return on assets at level 3.</p> <p>The Trust also identified Notable Practice at level 4, demonstrating the consideration of the differences between services as part of the planning cycle and takes decisions which take full account of the financial viability of services based on robust costing information that they have developed with the DoH. The Trust used this information to inform their decision to successfully seek further community midwifery funding following analysis of the financial viability of the service based on robust costing information and the business case which included a service line report indicating the financial viability of Orthopaedics.</p>	
<p>KLOE 2.2 (managing performance against budgets)</p> <p>Score</p> <p>VFM criterion met</p>	<p>4</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Budgets are formally delegated to responsible officers. Guidance is available to budget holders which includes a description of their responsibilities and outlines the budget setting process and timetable. Action plans are developed when a material variance arises or a deficit is forecast. Senior managers and the Trust Board receive budget monitoring information that is relevant, understandable and consistent with underlying records, including non-financial information, and data is as up to date as possible when reported. There is evidence that financial performance is a key objective for senior managers, including clinicians, and forms part of the organisation's performance management processes to ensure formal and effective accountability for delivery of budgets. The Board focuses on key variances and there is evidence that corrective actions are undertaken to address these variances. Future projections are risk assessed with narrative explanations. Monthly balance sheets are reported to the Board. Non-recurrent measures are used infrequently or as part of a longer term planned approach to address variances.</p>	

<p>The Trust identified Notable Practice in their Forecasting, Management Information and Cost Improvement Programmes which has been achieved by a detailed bottom-up forecasting methodology requiring some significant cultural change, which resulted in the accuracy of the financial position and forecast year-end position improving significantly as a result of the forecasting work.</p>	
<p>KLOE 2.3 (asset base)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Trust consolidated its management of the asset base. The Trust has an Estates strategy, which reflects the requirement of the Local Delivery Plan and stakeholders. The Trust holds an up to date asset register. The capital programme is set on the basis of an objective approval process and agreed by the Board. The Trust has carried out an energy site survey (using the NHS Environmental Assessment Tool) and produced a local energy strategy and action plan and also demonstrates a commitment to sustainability through the reduction of energy consumption and waste.</p> <p>The Trust did not provide any notable practice for level 4 and must also be able to demonstrate that the outcomes of Board discussion on access statements or equivalent referring to the use of the estate have been acted upon.</p>	

Financial standing: overall score 4

<p>KLOE 3.1 (managing within available resources)</p> <p>Score</p> <p>VFM criterion met</p>	<p>4</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Trust again achieved its relevant financial targets; statutory break-even duty, meeting its predicted surplus, undershooting the CRL. It is projecting realistic financial projections for 2009/10 (predicting break-even) and the medium term. These are supported by robust plans and are in line with the integrated business plan. The Trust confirmed that its accounts were prepared on a going concern basis and this is supported by a strong audit trail, as reported to the Audit Committee which approved them, which includes projections of cashflow for nine months after the date of approval of the accounts.</p>	

Appendix 1 – ALE key findings and conclusions

Internal control: overall score 3

KLOE 4.1 (significant business risks) Score VFM criterion met	3 Yes
Key findings and conclusions	
<p>The Trust has consolidated their performance on business risks. The Trust has a risk management strategy, identifying corporate and operational risks. The Trust has an assurance framework that is risk based and mapped to the Trust's principal objectives. Gaps in assurance are identified, responsible officers allocated and controls identified to remedy and mitigate those risks. Risk management has been incorporated into its corporate business processes via the Trust's Integrated Business Plan. The Board reviews the risk register and ensures that key risks are being effectively managed and mitigated. There is evidence that senior management are actively managing risks which have been identified and are attending, together with Members, regular risk management training.</p> <p>To improve to a level 4, the Trust must put forward evidence of Notable Practice and will need to further improve the role of the Board within the risk management process. Review of Trust Board minutes highlighted that although there is some analysis of risks and actions affecting the Trust, they do not appear to be key drivers within the Board Agendas as key risks and actions are not identified separately on the agendas. In addition, no evidence was provided to suggest that all staff have been given appropriate training and guidance to enable them to take responsibility for managing risk within their own working environment.</p>	
KLOE 4.2 (internal control) Score VFM criterion met	3 Yes
Key findings and conclusions	
<p>The Trust has consolidated their maintenance of internal control. The Trust is effectively following up issues within the SIC and procedure notes and manuals are in place for 'business critical' systems have been updated in year. Appropriate standing orders and standing financial instructions are in place and have been updated in year. There is an audit committee in place and agreed recommendations are followed up by the Trust. The Audit Committee NEDs receive adequate training and have the necessary skills and competencies to perform their roles. Business continuity and disaster recovery plans are in place.</p> <p>To improve to a level 4, the Trust must put forward evidence of notable practice and in addition, should look to meet the 'could do' requirements of the Audit Committee handbook and undertake an annual assessment that reviews the positive difference to the organisation's governance. The internal audit programme should also consider partnerships and consider value for money.</p>	

<p>KLOE 4.3 (probity and propriety) Score VFM criterion met</p>	<p>3 Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust has consolidated the conduct of the Business. The NHS Code of Conduct and Nolan principles have been formally adopted by the Trust Board and the Trust has arrangements in place to monitor compliance with the Code for all staff and Members. The Trust has established a Counter Fraud Policy and Whistleblowing policy, both available on the Trust's Intranet, The Local Counter Fraud Specialist is active in his role of promoting anti-fraud, by such methods as advertising via posters, newsletters and training and also via e-mail reminders from HR. NFI data has been provided to the Audit Commission.</p> <p>To improve to a level 4, the Trust must put forward evidence of notable practice and also needs to demonstrate a high level of ethical conduct, especially training for Members and employees, as well as ensuring that all gift and interest registers are regularly used and reviewed, and undertaking an effectiveness annual review of the whistleblowing arrangements.</p>	

Value for money: overall score 3

<p>KLOE 5.1 (strategic objectives) Score VFM criterion met</p>	<p>3 Yes</p>
<p>Key findings and conclusions</p>	
<p>The Trust has a vision for the future development of the Whittington which is translated into clearly defined and quantifiable operational objectives. The vision of the Whittington as the local hospital of choice specialising in ambulatory care has been realised in its pursuit of Foundation Trust status.</p> <p>There are three strategic objectives, patient focus, operational excellence and financial strength, that are supported by 10 corporate or operational objectives. These are brought together in the Integrated Business Plan and expressed in the operational and service directorate plans. The Integrated Business Plan outlines the process by which the vision and objectives were developed as well as the engagement with stakeholders, members and partners.</p> <p>The Trust has worked to ensure that its objectives are consistent with the commissioning arrangements agreed with local commissioners and reflect the requirements of the local population.</p>	

Appendix 1 – ALE key findings and conclusions

KLOE 5.2 (services) Score VFM criterion met	3 Yes
Key findings and conclusions	
<p>The Trust can demonstrate that it has proper arrangements to ensure that services meet the needs of patients and taxpayers generally, and for engaging with the wider community. These arrangements include both an ongoing review of services through the PALs and PPI functions and identification of health needs carried out as part of the FT application and included in the Public Health Profiles in the IBP. The Trust has in place gender, race and disability schemes that include action plans monitored by the Ethnicity and Diversity steering group and the respective steering groups for other diverse groups. The Trust has also moved to ensure its FT membership reflects the diversity of the local population.</p> <p>To ensure it communicates with its population, the Trust has a customer focused marketing strategy, supported by a detailed action plan and a communication policy that sets out how diverse groups will be targeted. Particularly impressive are the Trust's arrangements for patient engagement through focus groups and locally initiated patient questionnaires. These have already started to influence pathways in Cardiology, Maternity and A&E.</p>	
KLOE 5.3 (data quality) Score VFM criterion met	3 Yes
Key findings and conclusions	
<p>The Trust arrangements for performance monitoring are good. The board receive a monitoring report for each meeting based on the 'dashboard' approach to highlight the highest risk areas and this is supported by a detailed analysis of areas such as infection control and 18 week waits, considered to be high risk. There is a range of other monitoring reports including sickness and financial reports indicating how the trust is measuring against its objectives. The dashboard report groups the indicators into 6 separate domains relating to finance, clinical quality, patient experience, strategy, workforce and efficiency and access and targets. This is an effective arrangement that permits strengths and weaknesses in particular areas to be recognised easily. On the second part of this theme, data quality, improvement has taken place over the last 12 months. In particular, the error rate for Payment by Results has improved by declining from 13 percent to 8 percent and the appointment of a dedicated data manager undertaking a series of data audits is driving up data quality.</p> <p>There is a greater level of confidence about the quality of the data as a result of the activity of the data quality manager and the improved level of data quality monitoring. Although there is not a data quality policy in place, a framework exists for challenging, improving and monitoring DQ. The Trust was able to sign off their 2008/09 Information Governance assurances without any caveats in their return to the Department of Health. On this basis the score has improved from level 2 in 2007/08 to level 3 in 2008/09.</p>	

<p>KLOE 5.4 (managing resources) Score VFM criterion met</p>	<p>3 Yes</p>
<p>Key findings and conclusions</p> <p>The Trust is good at managing its financial arrangements and for achieving value for money. The Cost Improvement Programme (CIP) has achieved savings in excess of £20 million over a three year period. The progress against the savings targets is monitored by the Finance and Performance Committee to ensure targets are achieved. The savings plan cross references to the risk register and this helps ensure that resources are applied most effectively to high risk areas. There is an effective Service Line Reporting (SLR) programme in place. The SLR programme facilitates decision making at specialty level with the Trust able to identify the business units that are reaching their contribution levels and the levels of activity required to achieve their contribution levels. The use of 'bubble charts' enables sophisticated but transparent reporting of business unit efficiency to clinicians and non-clinicians alike. The Trust is implementing patient led costing which is at the forefront of service level reporting. The Service line reporting and Service line management models being implemented by the Trust are in line with those recommended by Monitor. Benchmarking has improved this year with the Trust more able to compare its performance with others particularly for length of stay and re-admissions.</p> <p>An area where the Trust should be looking to improve is the review of corporate back office functions. These have not been fully reviewed for VFM in recent years and have not been subject to external tendering. The savings identified in the CIP plan are mostly clinically based, although do include some back office savings. The focus on value for money is maintained in the back office functions by the Foundation Trust application but they have not been subject to formal review. The Trust has plans to put e-procurement into place in 2009 and the Trust will need to ensure this process is implemented and embedded throughout the Trust.</p>	



Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
5	HR must confirm that all starters, leavers and change of circumstances forms are fully authorised by all staff, line managers and the HR function as appropriate, before the information is transferred to the ESR system and processed in payroll.	3	HR			
5	HR information and documentation and all signed forms must be retained on personnel files / ESR system for audit trail purposes.	3	HR			