

**ITEM: 10/068**  
**Doc: 07**

**Meeting:** Trust Board  
**Date:** 23<sup>rd</sup> June 2010

**Title:** **Report from the Audit Committee on the Audited Annual Accounts for the year ended 31<sup>st</sup> March 2010**

**Executive Summary:** The Audit Committee met on 7<sup>th</sup> June 2010 and was attended by Anna Merrick (chair), Robert Aitken and Marisha Ray. The main item under discussion was the Annual Accounts and associated documentation for the financial year 2009-10. The Audit Committee had delegated authority to approve the Accounts on behalf of the Board and authorise their submission to the Department of Health by 11<sup>th</sup> June 2010.

Before considering the Accounts in detail, the Committee discussed the Annual Governance report from the District Auditor. In presenting her report, the District Auditor congratulated the Director of Finance and his team on the timely production of a credible set of accounts, their conduct during the audit and the quality of working papers. The relative brevity of the report reflected the low number of issues identified, with only one material adjustment being made to the accounts. The District Auditor registered the intention of issuing an audit report with an unqualified opinion on the Accounts and an unqualified value for money conclusion. The District Auditor advised that she would be recommending an overall ALE score of 4 (excellent), reflecting substantial evidence of good practice in the finance department.

The Audit Committee:

- considered the matters raised in the report;
- took note of the adjustments set out in the report;
- agreed to adjust the material error in the financial statements identified by the auditor;
- tested the assumptions made regarding provisions and the impact of impairments
- approved the draft letter of representation, subject to a minor change;
- agreed the response to the proposed action plan.

The Audit Committee then considered the accounts and resolved to approve them on behalf of the Trust Board.

The Committee also approved the final version of the Statement on Internal Control which forms part of the Annual Accounts.

The Annual Accounts documentation will be published on the Trust's website.

**Action:** The Board is asked to ratify the decisions made by the Audit Committee on its behalf.

<b>Report from:</b>	<i>Richard Martin, Director of Finance</i>
---------------------	--

<b>Sponsor:</b>	<i>Anna Merrick, Chair of Audit Committee</i>
-----------------	---

<b>Compliance with statute, directions, policy, guidance</b>  Lead: All directors	<b>Reference:</b>  Audit Committee handbook NHS compliance regime
---	--

<b>Compliance with Auditors' Local Evaluation standards (ALE)</b>  Lead: Director of Finance	<b>Reference:</b>  Internal control domain Financial reporting domain
--	--

### 1.0 Performance against key targets

Target	Comment
Breakeven performance – target to achieve a surplus of £0.21m before the impact of accounting for PFI under IFRS and impairments	A surplus of £0.14m was delivered, in line with previous months' forecasts. After accounting for PFI and impairments, there was a retained deficit of £5.2m.
Cumulative breakeven performance	There was ongoing achievement of statutory breakeven duty. The Trust reported a cumulative surplus of £4.11m or 2.32% of turnover (detailed in note 38.1).
Operate within the External Financing Limit (EFL)	The Trust undershot the EFL of £1.65m by £0.54m as shown in note 38.3, resulting in a year-end cash balance of £1.15m. Although the undershoot was permissible, it was caused by uncertainty regarding the treatment of new finance leases under IFRS.
Operate within the Capital Resource Limit (CRL)	The capital expenditure programme was delivered with a negligible underspend against the CRL of £6.85m, as shown in note 38.4. For the first time, capital expenditure included new finance leases totalling £0.98m.
Achieve a return on assets employed of 3.5%	The required return of 3.5% on average relevant net assets was achieved, due to the new requirement to calculate PDC dividends payable on an actual rather than estimated basis, as mentioned in note 38.2.
Better Payment Practice Code - Pay undisputed creditors within 30 days of receipt of goods or of a valid invoice	As shown in note 12, performance deteriorated due to the problems experienced in promptly recovering the costs of activity-related expenditure from PCTs. 85% of NHS creditors based on the number of invoices (60% based on value) were paid within the target. 66% of non-NHS creditors based on the number of invoices (67% based on value) were paid within the target.

## 2.0 Comparison to previous year

Item / Area	Page / Ref	This Year (2009/10) £000	Last Year (2008/09) £000	Comment
Property, plant & equipment	Statement of Financial Position & Note 16	132,801	148,080	As required by DH, property, plant & equipment was revalued on a MEA basis at 30 June 2009, resulting in a net impairment of £1.9m. There were further impairments at 31 March 2010 of £11.09m due to the fall in market value of buildings, and £1.3m due to bringing completed assets into use. The impairments not covered by the revaluation reserve were charged to operating expenses.
Receivables	Statement of Financial Position & Note 21	9,435	7,293	The increase was due largely to outstanding debts for SLA overperformance.
Payables	Statement of Financial Position & Note 26	15,542	15,635	There was a decrease of £1.5m in capital payables due to some of the capital programme being leased and the balance being largely spent. This decrease was partially offset by increases in other categories.
Borrowings	Statement of Financial Position & Note 27	40,802	41,477	The reduction in the PFI liability due to repayments was partially offset by additional liabilities in respect of new finance leases.
Provisions	Statement of Financial Position & Note 34	3,370	2,595	The increase was due largely to additional provisions, notably for employment tribunal cases.
Taxpayers' equity	Statement of Financial Position & Statement of Changes in Taxpayers' Equity	85,976	100,694	The decrease was due primarily to net impairments of £9.74m against the revaluation reserve and the retained deficit of £5.2m against retained earnings.

Revenue	Statement of Comprehensive Income & Notes 4-5	176,853	165,983	Precise comparisons are impossible due to the restructuring of the tariff from April 2009 but significant changes include increased outpatient (£3m), inpatient (£2m) and day case (£1.2m) activity, general tariff uplift (£1.9m) and improved data capture (£1.5m).
Operating expenses	Statement of Comprehensive Income & Note 7	176,252	160,943	Pay expenses increased by £7.22m, due to a combination of pay awards, incremental drift and additional staff. £3.85m of the pay increase was due to temporary staff. Impairments increased by £3.69m, representing the element not covered by the revaluation reserve. There was also an activity-related increase of £1.21m in clinical supplies & services.
Investment revenue	Statement of Comprehensive Income & Note 13	11	245	The decrease reflects the full year effect of the low interest rates that arose during 2008/09 and lower cash balances than in 2008/09.
Finance costs	Statement of Comprehensive Income & Note 15	2,643	2,507	The increase is due to the retrospective adjustment of a prior year anomaly between the MES liability and interest payable.
Dividends payable	Statement of Comprehensive Income	3,156	3,816	Dividends payable decreased in accordance with the reduction in property, plant & equipment.