

Annual Audit Letter

The Whittington Hospital NHS Trust
Audit 2009/10
September 2010

DRAFT

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Key messages

This report summarises the findings from my 2009/10 audit. My audit comprises two elements:

- the audit of your financial statements (page 5); and
- my Auditor's Local Evaluation (ALE) of your arrangements to achieve value for money in your use of resources (pages 6 to 7)

I have included only significant recommendations in this report. The Trust has accepted these recommendations.

Introduction

- 1 The Trust has had a challenging but successful year. Against a backdrop of rising pressure on services and a tough economic climate, the Trust has maintained its strong track record of sound financial management and good service delivery. There are however, bigger and more challenges ahead, as outlined in the 'future challenges' section of this Letter.
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Audit opinion and financial statements

- 2 I issued my audit report, including an unqualified opinion on the financial statements, on 10 June 2010.
 - 3 The accounts and supporting working papers were available by the due date. Working papers were of a good quality and the Trust responded quickly to audit queries throughout the course of the audit. This enabled me to complete my audit in good time to meet the Department of Health target date of 11 April 2010. This is a good performance given the shorter timescales and the added challenge of preparing the accounts under International Financial Reporting Standards (IFRS) for the first time. The accounts presented for audit complied with the new requirements.
 - 4 The accounts presented for audit contained one material classification error which the Trust adjusted. I reported three non-trivial errors which the Trust declined to amend on the basis the errors were not material.
 - 5 I did not identify any significant weaknesses in your internal control arrangements, which had not already been reported to you.
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Use of resources

- 6 I issued an unqualified value for money conclusion, stating the Trust had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, on 10 June 2010. My work for 2009/10 has shown that the Trust has

maintained sound arrangements when assessed against the criteria specified by the Audit Commission.

Future challenges

- 7 The Trust's good track record of delivering against key financial and operational targets puts it in a good position to face the significant challenges it, and other NHS Trusts face over the next few years
- 8 The economic climate is tough and all trusts will be required to make significant savings. Public expectations are increasing, the population is ageing and there is greater pressure on services.
- 9 In its medium term financial plan the Trust forecasts a continuing sound financial position. However, this forecast is dependent on achieving £14.5m of cost improvements in 2010/11 and an extra £10m in 2011/12. Continued robust financial planning and management will be essential if the Trust is to preserve its financial position.
- 10 There is likely to be structural change. Plans to integrate community provider services with the Trust are already under way. The Trust also remains open to other ways of delivering services to the local population. With this in mind, it is discussing possible merger with its neighbours, the Royal Free and UCLH hospitals.
- 11 The government has recently announced that it expects all trusts to become foundation trusts (FTs) within three years. The Trust is currently working on plans to achieve FT status either on its own or jointly with others and expects to be in a position to meet this target.
- 12 The Trust will need to ensure it preserves strong governance, risk management and internal control arrangements through this period of change.

Financial statements and Statement on Internal Control

The Trust's financial statements and Statement on Internal Control are an important means by which the Trust accounts for its stewardship of public funds.

Overall conclusion from the audit

- 13 I issued my audit report, including an unqualified opinion on the financial statements, on 10 June 2010.
- 14 The key findings from my audit were:
 - The draft accounts included one material error of £3,588,000 relating to the treatment of income due from NHS London in 2010/11. This was a balance sheet classification issue whereby the amount was included as both a 'trade and other receivable' and 'trade and other payable' and was amended in the final accounts.
 - We identified three non-material items that were not adjusted in the accounts. The Trust understated its income for two items of 'non-tariff'ⁱ funding from NHS London amounting to £625,000, and overstated a provision/accrual by £260,000. Taken together these items would have reduced the reported deficit by £885,000 to £4,311,000 and the surplus for break-even performance purposes would have increased to £1,024,000. The Audit Committee confirmed in writing their agreement with management's decision not to adjust the accounts for these items, on the basis the amounts were not material.
- 15 I also asked for a specific representation about activity in March 2010 that the Trust had decided was not collectable. The value of this activity was £1.8m. I required assurance, from those charged with governance, in this case the Audit Committee, that the income related to the activity was not collectable from the other NHS bodies. The letter of representation from those charged with governance included the assurance I needed.
- 16 I considered the qualitative aspects of your financial reporting and did not identify any significant weaknesses.

Significant weaknesses in internal control

- 17 I did not identify any significant weaknesses in your internal control arrangements, which had not already been reported to you.

ⁱ Non-tariff funding refers to funding received by the Trust from the Department of Health via NHS London or Primary Care Trusts that cannot be related to the payment of goods or services provided by the Trust. The two items referred to here are additional payments to the Trust in relation to the provision of services in single-sex accommodation.

Use of resources

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

- 18 The Audit Commission has published Key Lines of Enquiry (KLOEs) which auditors use in reaching scored ALE judgementsⁱ. The KLOEs provide consistent criteria for assessing and measuring the effectiveness and efficiency of a Trust's arrangements to deliver value for money.
- 19 Using this methodology, I have made a judgement for each KLOE using the Audit Commission's current four-point scale from 1 to 4, with 4 being the highest level. Level 1 represents a failure to meet minimum requirements.
- 20 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. For the Whittington this means that I was able to take a proportionate approach which required me to keep a few key issues or 'triggers' under review. The triggers are set out in Appendix 2.
- 21 Table 1 shows the Trust's ALE scores for the five key areas. Key findings and conclusions for the five areas, and the underlying KLOE, are summarised in Appendix 2. Overall the Trust has maintained the solid arrangements it has in place for good financial management, internal control and ensuring value for money.

Table 1 ALE scores

| Key area | Scored judgement |
|----------------------|------------------|
| Financial reporting | 3 (3 in 2008/09) |
| Financial management | 4 (4 in 2008/09) |
| Financial standing | 4 (4 in 2008/09) |
| Internal control | 3 (3 in 2008/09) |
| Value for money | 3 (3 in 2008/09) |

ⁱ 'ALE for Trusts' guidance available on the Audit Commission website

VFM conclusion

- 22 I issued an unqualified conclusion stating the Trust had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources on 10 June 2010.
- 23 My conclusions on each of the areas are informed by my work on ALE and are set out in Appendix 3. The Audit Commission requires me to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against their specified criteria.

Approach to local value for money work from 2010/11

- 24 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.
- 25 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:
- securing financial resilience; and
 - prioritising resources within tighter budgets.
- 26 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Trust in my Annual Governance Report to the Audit Committee and in my Annual Audit Letter.

Future challenges

Financial standing

- 27 There are continuing pressures on services from rising public expectations, a growing and ageing population and downward pressure on costs. The Trust must find £14.5m of cost improvements in 2010/11 and an extra £10m in 2011/12. The Trust is facing many challenges including expected reductions in prices and tariffs, taking on responsibility for readmissions within 30 days, extension of poly clinics and community working incentives, continuing cuts in the market forces factor (reducing income), and a continuing expectation to deliver more outpatient appointments outside hospital. Continued robust financial planning and management will be essential if the Trust is to preserve its financial position whilst accommodating these changes.
- 28 I understand that the Trust is making good progress in identifying the cost savings it requires for 2010/11 and is currently on target to generate a surplus for the year. I will monitor progress during my 2010/11 audit.

Recommendation

- R1** Maintain robust financial planning and management arrangements to ensure required savings are achieved.

Future developments

- 29 There is likely to be structural change. Plans to integrate more provider services with the Trust are already under way. In line with Department of Health (DoH) requirements, community services are separating from their commissioning hosts. Two local Primary Care Trusts (NHS Islington and NHS Haringey) have identified The Whittington as the preferred provider for their community services (activity was worth around £90m in 2009/10).
- 30 All parties are working through due diligence procedures, whilst detailed negotiations continue. The DoH's expectation is that the new integrated organisation should be in place by April 2011. This is a challenging timetable. The Trust has set up a strategic unit headed by a programme director (seconded in) to help facilitate progress.
- 31 The Trust also remains open to other ways of delivering services to the local population. With this in mind, it is discussing possible merger with its neighbours, the Royal Free and UCLH hospitals. The Trust expects to report to the Board setting out the options in September 2010.
- 32 The government has recently announced that it expects all trusts to become foundation trusts within three years. The Trust is currently assessing its performance against Monitor's criteria for foundation trusts. The Trust expects to

Future challenges

meet the criteria and be able to apply for foundation trust status in accordance with the DoH timetable.

- 33 The Trust will need to ensure it preserves strong governance, risk management and internal control arrangements through this period of change. The Trust's Audit Committee will have a key role to help the Trust to deliver against the challenging agenda it faces.

Recommendation

- R2 Review the risks associated with change and adapt governance, risk management and internal control arrangements to ensure they remain robust.

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Closing remarks

- 34 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 2 September 2010 and will provide copies to all board members.
- 35 Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Trust during the year.

| Report | Date issued |
|--------------------------|--------------|
| Annual Governance Report | 7 June 2010 |
| Final Accounts memo | 14 July 2010 |

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- 36 The Trust has taken a positive and constructive approach to my audit. I wish to thank the Trust staff for their support and co-operation during the audit.

Andrea White
District Auditor
September 2010

Appendix 1 – Audit fees

| | Actual | Proposed | Variance |
|---------------------------------------------------------|-----------------|-----------------|-----------------|
| Audit of accounts and the statement on internal control | £ 91,425 | £ 91,425 | £0 |
| IFRS restatement audit | £ 11,650 | £ 11,650 | £0 |
| Value for money work | £ 6,025 | £ 6,025 | £0 |
| Total audit fees | £109,100 | £109,100 | £0 |
| Non-audit work | £0 | £0 | £0 |
| Total | £109,100 | £109,100 | £0 |

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Appendix 2 – ALE key findings and conclusions

The following tables summarise the 'triggers'; conclusions; and outcomes for each of the five key areas. The triggers are a few key areas specified by the Audit Commission for review where trusts achieved a score of three or more last year.

Financial reporting: overall score 3

The trigger for this theme was - a material error in the financial accounts or late submission of the accounts for audit, based on evidence that:

- the accounts were compiled in accordance with statutory and professional reporting standards;
- the accounts were prepared and approved within relevant timetables;
- the accounts were supported by timely and comprehensive working papers; and
- the auditor gave an unqualified 'true and fair' accounts opinion.

Conclusions

In my view the material error identified during my audit was a classification error only and did not affect the reported financial position in the accounts. I was satisfied that all the other aspects highlighted above had been met by the Trust.

Based on the work done on the triggers for financial reporting there was no suggestion the Trust was not performing at the level evident in 2008/09. I was therefore satisfied the Trust had continued to perform effectively and the score from 2008/09 could be carried forward.

| | | |
|-------------------------------------------|----------------|----------|
| KLOE 1.1 (annual accounts) | Score = | 3 |
| KLOE 1.2 (external accountability) | Score = | 3 |

Financial management: overall score 4

The triggers for this theme were:

- a significant shift in performance from the financial plan; or
- the medium term financial plan has not been reviewed to take account of the impact of having to make significant savings because of pressure on public spending.

Conclusions

Based on the work done on the triggers for financial management there was no suggestion the Trust was not performing at the level evident in 2008/09. I was therefore satisfied the Trust continued to perform effectively and the score from 2008/09 could be carried forward.

I noted three examples of notable practice in its financial management for patient level costing and information; refining apportionment and assumptions on costs; and year -end forecasting.

| | | |
|--------------------------------------------------------|----------------|----------|
| KLOE 2.1 (financial strategy and budgets) | Score = | 4 |
| KLOE 2.2 (managing performance against budgets) | Score = | 4 |
| KLOE 2.3 (asset base) | Score = | 3 |

Appendix 2 – ALE key findings and conclusions

Financial standing: overall score 4

| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------|
| The trigger for this theme was - the Trust forecasts a deficit for the year from the beginning of quarter 3 or 4. | | |
| Conclusions | | |
| Based on the work done on the triggers for financial standing there was no suggestion the Trust was not performing at the level evident in 2008/09. I was therefore satisfied the Trust had continued to perform effectively and the score from 2008/09 could be carried forward. I also noted an example of notable practice for financial standing about achieving financial balance and Cost Improvement Programmes over several years. | | |
| KLOE 3.1 (managing within available resources) | Score = | 4 |

Internal control: overall score 3

| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------|
| The triggers for this theme were: <ul style="list-style-type: none"> a significant adverse event or external report that suggested that internal controls were not operating adequately; or the Board has not reviewed its arrangements against the Board checklist and general findings in the Audit Commission report 'Taking it on Trust' and developed an action plan accordingly. | | |
| Conclusions | | |
| Based on the work done on the triggers for internal control there was no suggestion the Trust was not performing at the level evident in 2008/09. I was therefore satisfied the Trust had continued to perform effectively and the score from 2008/09 could be carried forward. | | |
| KLOE 4.1 (significant business risks) | Score = | 3 |
| KLOE 4.2 (internal control) | Score = | 3 |
| KLOE 4.2 (probity and propriety) | Score = | 3 |

Value for money: overall score 3

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------|
| The triggers for this theme were: <ul style="list-style-type: none"> evidence that performance on key operational targets had materially declined; or the Trust was not fulfilling key actions from the NHS Carbon Reduction Strategy 2009. | | |
| Conclusions | | |
| Based on the work done on the triggers for value for money there was no suggestion the Trust was not performing at the level evident in 2008/09. I was therefore satisfied the Trust had continued to perform effectively and the score from 2008/09 could be carried forward. I noted an example of notable practice for value for money about the Trust being a pilot site to introduce insulin pumps. | | |
| KLOE 5.1 (strategic objectives) | Score = | 3 |
| KLOE 5.2 (services) | Score = | 3 |
| KLOE 5.3 (data quality) | Score = | 3 |
| KLOE 5.4 (managing resources) | Score = | 3 |

Appendix 3 – Value for money conclusion

| Code criteria | Adequate arrangements? |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| 1. The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives. | Yes |
| 2. The body has put in place channels of communication with patients and their representatives and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account. | Yes |
| 3. The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to the board. | Yes |
| 4. The body has put in place arrangements to monitor the quality of its published performance information and to report the results to board members. | Yes |
| 5. The body has put in place arrangements to maintain a sound system of internal control. | Yes |
| 6. The body has put in place arrangements to manage its significant business risks. | Yes |
| 7. The body has put in place arrangements to manage and improve value for money. | Yes |
| 8. The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities. | Yes |
| 9. The body has put in place arrangements to ensure that its spending matches its available resources. | Yes |
| 10. The body has put in place arrangements for managing performance against budgets. | Yes |
| 11. The body has put in place arrangements for the management of its asset base (only applicable to organisations with a significant asset base). | Yes |
| 12. The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business. | Yes |

Appendix 4 – Glossary

Statement on Internal Control

Public bodies must provide assurance that they are appropriately managing and controlling their money, time and people. The Statement on Internal Control (SIC) is an important document for communicating these assurances to Parliament and citizens.

The SIC is the means by which the Chief Executive Officer declares his or her approach to and responsibility for, risk management, internal control and corporate governance. It is also used to highlight weaknesses which exist in the internal control system within the organisation. It forms part of the Annual Report and Accounts.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
 - whether they have been prepared properly, following the relevant accounting rules.
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Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.
