

Annual Audit Letter

Poole Hospital NHS Foundation Trust
Audit 2007/08
Date **11 September 2008**

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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.

Key messages

- 1** The Trust has faced an exceptionally challenging year, delivering healthcare to its patients whilst dealing with a number of initiatives, including a successful application to become a Foundation Trust (FT) and the implementation of a new payroll system. The Trust became an FT on 1 November 2007.
- 2** The Trust was an early achiever for treating patients within 18 weeks. By March 2008, 92.4% of admitted patients and 95.5% of non-admitted patients waited less than 18 weeks from when they were referred by their GP to when their treatment started.
- 3** Hospital acquired infections were an issue at the Trust during 2007/08 with 24 cases of MRSA Bacteraemia reported against a target of 15. The Trust is reporting monthly on MRSA Bacteraemia and has a robust action plan in place. In the quarter ended 30 June 2008 only 1 case was reported.
- 4** The Trust began 2007/08 with a target surplus of £400K. It actually achieved a surplus for the year of £890k, £199K in the first 7 months and £691K in the last five months of the year. The Trust also achieved cash balances of £9.8M. This surplus forms a sound basis to fund its ambitious capital programme.
- 5** 2008/09 the Trust set out to achieve a surplus of £3.3M, at the end of July it was reporting a surplus achieved of £1,728K, ahead of target by £585K.
- 6** During 2008/09 the Trust will receive income from its main commissioners under payment by results (PBR) and the quality of data coding will become increasingly important.
- 7** During 2007/08 on behalf of the Department of Health the Audit Commission undertook clinical coding audits across the whole of the NHS in England. The objective was to assess the accuracy of clinical coding and to support improvement in coding arrangements. 300 case records were reviewed at each trust and the results discussed with each PCT and provider Trust. It is important to note that these samples are neither representative nor significant enough to allow extrapolation of the data. However, for Poole the study found that correction of the coding errors identified would result in a net £4,000 being due to the Trust. Officers are progressing the report currently.

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.
- 9** More detail can be found in our Governance Report to ‘those charged with governance’ (the Audit and Governance Committee). This report has been discussed and agreed with officers and presented to the Audit Committee and is available upon request.
- 10** As your external auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice for the 7 months to 31 October 2007 and Monitor’s Code from 1 November 2007. Under both Codes, I review and report on the Trust’s two sets of accounts.
- 11** In addition, before the Trust achieved FT status I had a responsibility to assess whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 12** This letter summarises the significant issues arising from both these areas of work

Audit of the accounts

Audit of the accounts

- 13** The Trust was required to produce two sets of accounts in 2007/08, one for the first 7 months as an NHS Trust and one for the 5 months as a newly licensed FT. I issued unqualified opinions for both sets of Trust accounts on 12 June 2008, before the deadlines set by the Department of Health and Monitor. In my opinion both sets of accounts give a true and fair view of the Trust's financial affairs and of its income and expenditure covering both periods.

Before giving my opinion I reported to those charged with governance, in this case the Audit and Governance Committee on the issues arising from the 2007/08 audit. I issued this report on 5 June 2008.

In year financial performance

- 14** The Trust began 2007/08 with a target surplus of £400K. It actually achieved a surplus for the year of £890k, £199K in the first 7 months and £691K in the last five months of the year.
- 15** Under the foundation trust regime the Trust is no longer required to achieve year on year financial balance but instead it must meet certain key financial ratios under the terms of its licence set by Monitor. All key ratios were met in the period.

Accounting issues

- 16** The Trust faced a number of key challenges in the preparation of its accounts, including:
- preparing two sets of accounts that required different treatments and disclosures; following the NHS financial reporting manual for the NHS Trust part and UK Generally Accepted Accounting Policy for the FT element;
 - The revaluation of the its entire estate.

The Trust's accounts contained a number of disclosure and presentational errors, which were amended prior to submission.

Audit of the accounts

- 18** Where the Trust has material levels of stocks we are required to attend the year end stock take as required by ISA(UK and I) 501 (mandatory requirement). However, the Trust undertook the year end stock take for the NHS accounts a month earlier than expected on 30th September (rather than 31st October) and therefore we did not attend the year end stock take.
- 19** As stocks are material to the NHS accounts (around £1.8m) we have carried out additional testing to gain the assurance that we need as follows:
- Analytical review comparing current stock levels with those of previous years;
 - Systems control testing on the JACs (pharmacy) system;
 - Purchase records testing; and
 - Carrying out test counts of stock.
- 20** From our testing above we are able to conclude that stocks are materially correct.
- 21** The Trust also amended its opening balances following an adjusting post balance sheet event relating to the NHS part period accounts. The interim revaluation of fixed assets by the District Valuer reduced the Trust's fixed asset values by £5.6M and this was adjusted in the NHS part period accounts.

Annual report

- 22** Under Monitor's Code of Audit for Foundation Trusts I have a responsibility to read the information contained within the Trust's Annual Report, and consider the implications for the opinion and / or the certificate if there are apparent misstatements or material inconsistencies with the financial statements.
- 23** The information contained in the Trust's annual report is consistent with the audited financial statements.

Audit of the accounts

Statement on Internal Control (SIC)

- 24** The Accounting Officer's responsibility in respect of internal control for the period ended 31 March 2008 reflects the establishment of an assurance framework required to manage the risks faced by the Trust, including the maintenance of effective systems of internal control. This is supplemented by a statement from Internal Audit that systems are in place and working effectively.
- 25** We have reviewed whether the SIC has been prepared in accordance with the requirements specified by Monitor and is consistent with the findings from our audit.

Trust's use of resources

- 26** Under Monitor's Code I am no longer required to conclude on whether the FT has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In addition I was not required to provide scored judgements (auditor's local evaluation (ALE)) on the Trust's arrangements as I did in the previous year, 2006/07. The Healthcare Commission now uses Monitor's scores to inform the Use of Resources score as part of its annual health check.

- 27** The Audit Code for NHS Foundation Trusts requires me to satisfy myself that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources. In order to meet this requirement I need to:

- draw upon my audit work on the Statement on Internal Control as part of the audit of the financial statements;
- review the results of the work of regulatory bodies, for example the Healthcare Commission; and
- take into account any work that we have completed on behalf of the Healthcare Commission (there was no such work in 2007/08)

- 28** We also relied on the Trust's arrangements for ensuring that recommendations arising from audit reviews are implemented, and on the arrangements for internal reporting to the Board and its sub-committees.

- 29** . There were no matters arising which needed to be brought to the attention of those charged with governance.

Other matters of interest

International Financial Reporting Standards – PFI Schemes

HM Treasury has recently published its guidance on accounting for PPP arrangements – including PFI schemes.

The information can be found on the Department of Health's FINMAN website. It is essential for all Trusts with PFI schemes to be aware of this guidance and for it to be reflected in their IFRS implementation plans.

2008/09 financial statements deadlines

The Department of Health has recently published the financial reporting deadlines for 2008/09 which includes both draft and audited financial statements, as well as the preparation and audit of restated balances for IFRS purposes.

The deadline for the preparation of the financial statements has been brought forward from 2007/08 and these now need to be submitted to the Department of Health and the Audit Commission by 23 April 2009.

The deadline for completing the audit work has also been brought forward and audited financial statements need to be submitted to the Department of Health by 12 June 2009.

The full timetable can be found on the Department of Health's FINMAN website.

Information Library for Non-Executive Directors

When we work and talk with Non-Executive Directors of aspirant or authorised NHS foundation trusts, we often refer them to a range of knowledge, guidance, publications and tools.

Some of these are our own materials, while others are gathered from other sources, such as Monitor or the Department of Health.

Following feedback from across the Country we have created the Trust Practice Intelligence Resource - a 'one-stop shop' where Non-Execs can easily locate this reference material, knowing that it is up to date and comprehensive.

The library can be accessed via the Trust Practice section of the Audit Commission's website.

Monitor's 2007/08 Annual Report and Accounts

On 18 July 2008 Monitor published its annual report and accounts for 2007/08. This provides some interesting background information for Foundation Trusts as well as some useful case studies. The report can be found on Monitor's website.

Private patient income

Since September 2007, Monitor has been in correspondence with UNISON over Monitor's approach to private patient income. This approach is set out in Monitor's NHS Foundation Trust Financial Reporting Manual 2007/08 (the FT FReM).

Following its meeting on 30th January, Monitor decided that the most appropriate course of action is again to open this matter to full consultation.

In June 2008 Monitor issued its consultation document seeking views on the specific rules that NHS foundation trusts should follow in accounting for the income they earn from activities relating to the treatment of private patients, (Consultation on the interpretation and application of the private patient income cap). The deadline for responses is 9th September 2008.

Compliance Framework

Monitor has published a revised Compliance Framework for NHS foundation trusts (May 2008). The Compliance Framework sets out Monitor's approach to regulating an NHS foundation trust, ensuring it stays within its Terms of Authorisation, while at the same time providing the freedom it needs to innovate and respond to local needs.

Reflecting this, Monitor's changes to the compliance framework focuses on:

revised healthcare targets for 2008/09 by which Monitor will directly assess service performance as one indicator of effective governance;

updated self-certifications for boards to sign;

refined reporting requirements for membership; and

requirements underpinning self-certification on clinical quality.

Closing remarks

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- 30** 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 1 Reports issued

Report	Date of issue
Audit plan	September 2007
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for money conclusion	June 2008
Annual audit letter	September 2008

- 31** 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.

Patrick Jarvis

District Auditor
September 2008