
Poole Hospital NHS Trust

Annual Audit Letter

Audit 2005/2006

December 2006



External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Trust

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 or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director or officer in their individual capacity; or
- any third party.

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Purpose, responsibilities and scope

The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the directors of the Trust, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Trust website.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Trust

- 3 We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public sector bodies in England, including NHS trusts.
- 4 As the Trust's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives. It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Trust is fulfilling these responsibilities.

The scope of our work

- 5 We plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to 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.
- 6 In addition to this, we use our assessments to provide scored judgements for the Healthcare Commission to use as part of its annual health check.
- 7 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Trust. A list of all reports issued to the Trust in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

Key messages

- 8 The Trust has faced a challenging year, having to implement significant cost improvement plans whilst still having to deliver high standards of patient care and targets to reduce waiting times further. The Trust is in the process of applying for Foundation Trust status which it hopes to achieve in April 2007.
- 9 There have been significant changes at the Trust during the year, with a new Chief Executive and directors having been appointed. In addition, new care directorates have been established as part of the Trust's wider review of its management structure, and it is in this context that we raise the following matters for the Trust Board.

Table 1 Key conclusions and required actions

Area	Issue/conclusion	Recommended action
Accounting issues	<p>The Manual for Accounts requires that the draft statement on internal control should be available with the accounts given to the auditors and also requires that the disclosures in the remuneration report must be audited. The information should therefore be made available during the audit of the accounts.</p> <p>The draft annual report was not received until after the auditor's opinion had been issued.</p>	<p>The Statement on Internal Control should be received by the auditors at the same time that the draft accounts are submitted. The remuneration report should be available to the auditors during the audit of the accounts and the annual report should be available to the auditors prior to the audit opinion being issued.</p>
Financial standing	<p>The Trust has a financial target to make a £2.4m surplus in 2006/07.</p> <p>In order to achieve this target, the Trust needs to achieve cost savings of £5.9m.</p> <p>The Trust plans to apply for Foundation Trust status by April 2007, but as yet does not have an agreed longer term financial plan.</p>	<p>The Trust should ensure that it has robust plans in place which clearly identify where savings will be achieved to meet its planned target of a £2.4m surplus by the year end.</p> <p>If the Trust is to apply for Foundation Trust status by 1 April 2007, its longer term financial plan must be fully developed and must be agreed with its commissioners.</p>

Area	Issue/conclusion	Recommended action
<p>Value for money and Auditor's local evaluation (ALE)</p>	<p>We issued a non-standard report on the Trust's value for money conclusion. This was to take into account our work on the Trust's financial management where we scored the Trust as a 1 as, at the time of our review:</p> <ul style="list-style-type: none"> • there was no medium term financial strategy in place; and • the Trust did not achieve its cash releasing efficiency savings target for the year. 	<p>The Board should monitor progress and outcomes against agreed action plans to improve the Trust's position.</p>
<p>Acute Hospitals Portfolio</p>	<p>The Trust was one of only 16 trusts in the country to score 'excellent' in the Healthcare Commission's assessment of diagnostics.</p> <p>The Trust scored 'fair' in medicines management and its relative score for admissions management has yet to be announced by the Healthcare Commission.</p> <p>The Trust has produced an action plan to further improve performance in these areas.</p>	<p>The Board should ensure that areas identified for improvement by our Acute Hospitals Portfolio work are followed up and that appropriate action is taken to implement the agreed recommendations.</p>
<p>Follow up of previous audit reports</p>	<p>We followed up a number of audit reports from previous years. Our findings showed that in a number of areas, action still needs to be taken.</p>	<p>The Board should monitor progress and outcomes against previously agreed action plans to ensure that these have been implemented and improvements made where required.</p>

The audit of the accounts

- 10 We issued an unqualified opinion on the Trust's accounts on 7 July 2006, in time to meet the Department of Health deadline. In our opinion, the accounts give a true and fair view of the Trust's financial affairs and of the income and expenditure recorded by the Trust during the year.
- 11 Before we give our opinion on the accounts, we are required to report to those charged with governance (the Trust's Audit Committee) significant matters arising from the audit. Discussions were held with the Audit Committee on 23 June and the key issues from our Governance Report are summarised here.

Remuneration report and other reports

- 12 The Department of Health issued guidance to the NHS on what is expected in relation to Remuneration reports and the Statement on Internal Control. The Manual for Accounts requires that the draft statement on internal control should be available with the accounts given to the auditors. The Manual for Accounts also requires that the disclosures in the remuneration report must be audited and that the information must therefore be made available during the audit of the accounts. Both reports were not received until the audit was almost complete.
- 13 The auditors must be given a copy of the annual report and, where applicable, summary financial statements, in sufficient time to carry out the required work before the completion of the auditor's opinion. The draft annual report was not received until after the auditor's opinion had been issued.

Recommendations

R1 The Statement on Internal Control should be received by the auditors at the same time that the draft accounts are submitted. The remuneration report should be available to the auditors during the audit of the accounts.

R2 The annual report should be available to the auditors prior to the audit opinion being issued.

Financial standing

- 14 In March 2006 the Trust reported a shortfall of £2.8m against its Short Term Financial Strategy, due mainly to savings on the Trust's workforce review not being delivered. The Trust subsequently identified further savings, and also received £1.5m additional income for extra activity undertaken during the year. As a result, the Trust was able to report a break even position at the year end. The Trust also remained within its Capital Resource and External Financing Limits.

- 15 The Trust has a target to achieve a surplus of £2.4 million in 2006/07 (roughly equivalent to the net surplus forecast as a result of the introduction of Payment by Results) which will enable it to provide the level of support to the wider health community agreed with the Strategic Health Authority as part of the 2006/07 Local Delivery Plan negotiations. To achieve its target, the Trust requires savings of £7.1m.
- 16 The Trust is reporting that £1.2m has already been achieved from recurring savings carried forward from the previous financial year, leaving a balance of £5.9m for the Trust to address this year.
- 17 A £3.5m Cash Releasing Efficiency Savings (CRES) programme has been agreed with directorates although savings for the surgical directorate have not yet been agreed. The majority of the balance of the savings planned will come from the Trust's transformation programme which has been developed to support its future services strategy and which includes areas where further savings can be achieved.
- 18 There remain, however, some risks to the Trust as:
- around £0.8m general savings have yet to be identified;
 - not all the savings planned as part of the transformation programme have been identified;
 - there are issues to resolve around the funding of cancer drugs, and
 - there are only six months remaining in which to achieve these savings.
- 19 If the savings above cannot be made, there is a risk that the Trust will be unable to meet its financial targets.
- 20 The Trust is currently working to improve its longer term financial management and plans to apply for Foundation Trust status from April 2007. Work is under way to develop a financial model based on Monitor's (the Foundation Trust regulator) diagnostic model. As part of this exercise, the Trust is working with its main commissioner to establish baseline activity, and to compile projected activity templates which will support the financial plan. We will review the Trust's work on its financial plan as part of the 2006/07 audit.

Recommendations

R3 The Trust should ensure that it has robust plans in place which clearly identify where savings will be achieved to meet its planned target of a £2.4m surplus by the year end.

R4 If the Trust is to apply for Foundation Trust status by 1 April 2007, its longer term financial plan must be fully developed and must be agreed with its commissioners.

The Trust's use of resources

- 21 We are required to issue a conclusion on whether we are satisfied that 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.
- 22 We are 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 areas. This is known as the Auditor's Local Evaluation (ALE) which covered the following:
- financial reporting;
 - financial management;
 - financial standing;
 - internal control; and
 - value for money.

Value for money conclusion

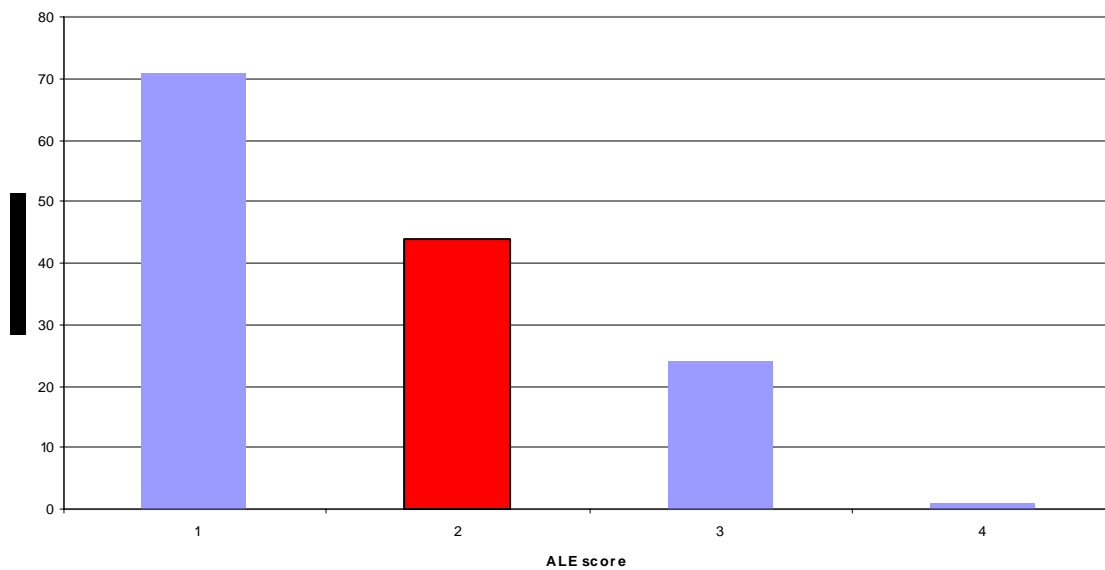
- 23 We issued a non-standard report on the Trust's value for money conclusion. This was to take into account our work on the Trust's financial management where we scored the Trust as a 1 (ie below minimum requirements) because, at the time of our review:
- there was no medium term financial strategy in place; and
 - the Trust did not achieve its cash releasing efficiency savings target for the year.
- Officers have stated that failure to achieve the Cash Releasing Savings was mitigated by the substantial unplanned increase in activity.
- 24 The detailed findings and conclusions based on the Auditors' Local Evaluation are summarised in the following section.

Auditor's Local Evaluation

- 25 The Healthcare Commission published the overall ALE score in the annual health check on 12 October 2006. Figure 1 shows the scores for NHS Trusts in England and highlights that this Trust's overall score is a 2.

Figure 1 Overall ALE scores for NHS Trusts in England

Poole Hospital scored 2 overall which is better than many other Trusts in England



- 26 We assessed the Trust's arrangements in five areas. Each area was scored from 1 to 4 (1= below minimum requirements - inadequate performance, 2 = only at minimum requirements - adequate performance, 3 = consistently above minimum requirements - performing well and 4 = well above minimum requirements - performing strongly). A detailed final report supporting our assessment and highlighting areas for improvement will be reported to the Audit Committee in December 2006.

Table 2 **ALE scores**

Area	Overall Score	Recommended action
Financial reporting (annual accounts and external accountability)	2 (1 for external accountability)	<ul style="list-style-type: none"> • Detailed earlier in the audit of the accounts (R1 and R2). • Board agendas including financial reports and minutes should be made available to the public on the Trust’s website, including the Annual Audit Letter.
Financial management	2 (1 for financial management)	<ul style="list-style-type: none"> • Develop a medium term financial strategy supported by a robust savings plan. • Develop cash flow forecasting. • Non-Executive directors should receive regular training on financial issues. • Key strategy documents should be formally approved by the Board. • The Board should receive reports which assess performance against key performance indicators.
Financial standing	2	<ul style="list-style-type: none"> • The going concern confirmation should be supported by a strong audit trail to show the basis of considerations.
Internal control	2	<ul style="list-style-type: none"> • The Board needs to ensure that the risk register is kept up to date, and that key risks are effectively managed and mitigated. • Raise profile and impact of the Audit Committee and record training attended by non-executive directors. • Establish a process to monitor implementation of external audit report recommendations. • Board reports should show that they have been formally considered for legal issues. • A process should be in place to record offers of gifts and hospitality to non-executive directors.

Area	Overall Score	Recommended action
Value for money	2	<ul style="list-style-type: none"> • Improve processes for strategic planning. • Develop a more outwardly focused Patient Public Involvement (PPI) strategy. • Improve understanding of the Trust's catchment population and ensure key groups are appropriately engaged. • Establish a programme of performance management to ensure that the Trust's objectives are achieved. • Clearly link activity and resources with performance management reports. • Set realistic short, medium and long term plans to demonstrate how cash releasing efficiency savings will be delivered. • Develop a corporate system to share good practice and innovation.

- 27 We have discussed our findings with executive directors and the Audit Committee and whilst in some areas they have been disappointed with the assessment that we have reached they have responded positively to the need for improvement and change.
- 28 Since our review the Trust has begun to take action in many of the areas outlined above. For example, there are new arrangements in place to manage performance, and work is currently under way to develop business and longer term financial planning. It is important that the Trust maintains the momentum for improvement to aid its application for Foundation status.
- 29 To help the Trust improve its arrangements we will seek to identify notable practice and share this with the Trust. We will also meet regularly with executive directors and senior managers to review progress.
- 30 We have prepared a series of graphs comparing Poole Hospital's performance in the areas reviewed to other trusts and these are set out below.

Figure 2 Financial management ALE scores for trusts in England

The Trust's overall score for financial management is in line with the majority of other Trusts in England

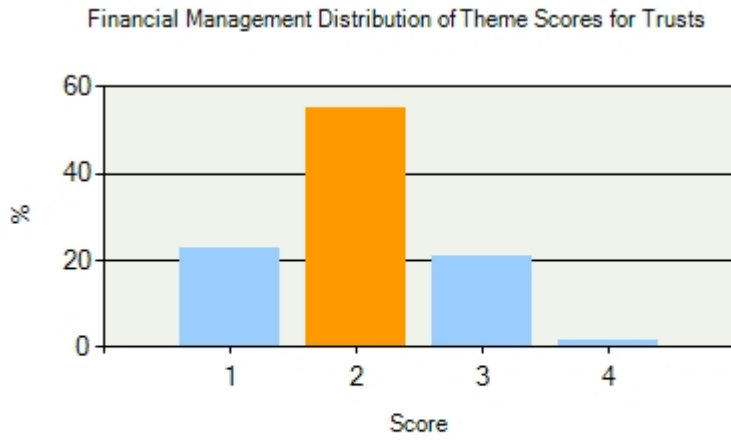


Figure 3 Financial standing ALE scores for trusts in England

Poole Hospital NHS Trust scored 2, while many other trusts scored 1

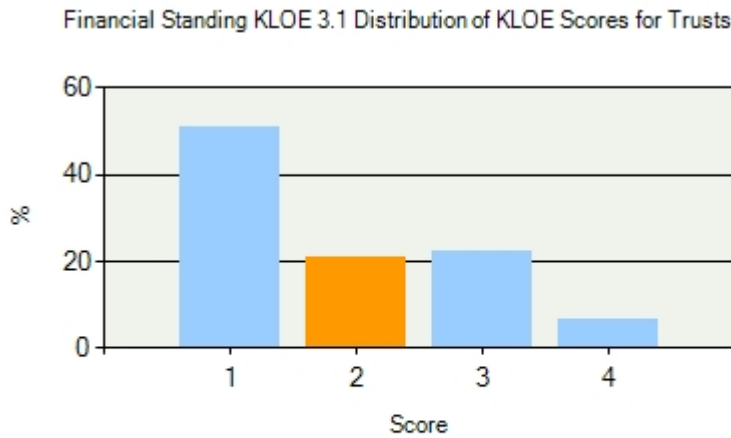


Figure 4 Value for money ALE scores for trusts in England

Poole Hospital NHS Trust (score =2) is in line with other trusts in England

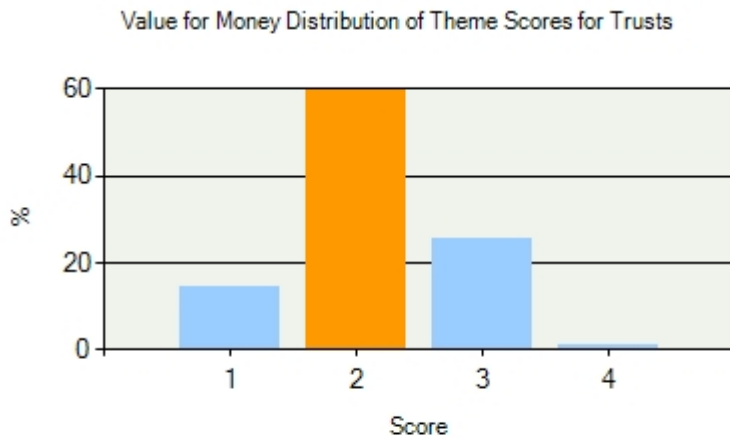


Figure 5 Internal control ALE scores for trusts in England

The Trust's scores are in line with the average (score =2)

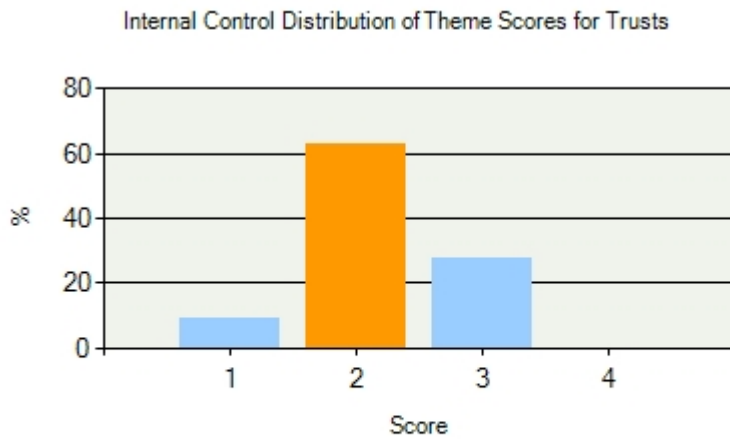
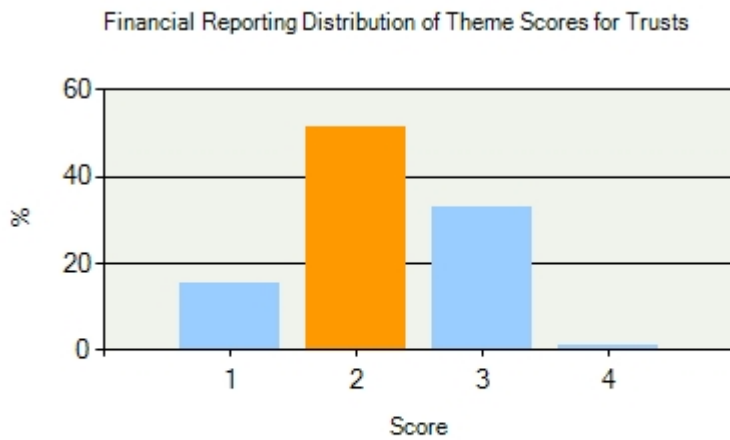


Figure 6 Financial reporting ALE scores for trusts in England

Poole Hospital's score of 2 was in line with the average



Recommendation

R5 The Board should monitor progress and outcomes against agreed action plans to improve the Trust's position.

Follow up - spot check report and data quality

- 31 In March 2004 we reported to the Audit Committee the results of a spot check review of the Trust's data quality. The Trust was awarded a green rating '...a good/satisfactory level of data accuracy has been achieved...' and consequently we were not required to do any further work other than follow up the agreed action plan.
- 32 There were 13 recommendations from the original report and we can report that progress has been made on most of the agreed actions. There are still some improvements which could be made for example, in refresher training for admissions staff and for staff using the hospital's Patient Administration System.
- 33 We also carried out a review of data quality which was reported to the Audit Committee in June 2005 which we have recently followed up. We made a number of recommendations, some of which still require action, in particular:
 - correctly recording arrival and discharge times in day surgery; and
 - the requirement for clinicians to follow best practice in signing and dating all entries in patient notes.

Recommendation

R6 The Board should monitor progress and outcomes against previously agreed action plans to ensure that these have been implemented and improvements made where required.

Follow up - agenda for change and consultants' contracts

- 34 The Trust has successfully implemented the recommendations from our 2004/05 reviews of Agenda for Change and the new Consultants' Contracts. Work on the action plans has been supported by restructuring the Directorates into Care Groups, and the introduction of a stronger performance management culture. Implementing the benefits of Agenda for Change and the new Consultants' Contract is the responsibility of each Care Group, proactively managed to meet specific objectives.

Acute Hospitals Portfolio

- 35 The Acute Hospitals Portfolio is a collection of reviews of key services, resources or issues that are of national concern and that are important to patients, NHS managers and clinicians. Different areas are selected each year for review. It enables performance to be compared across similar trusts, identifying areas which require further investigation thus driving improvement. The Audit Commission undertakes this work on behalf of the Healthcare Commission.
- 36 For 2005/06 the topics and scores from the Healthcare Commission are:
- Admissions management (due to be published 2 October 2006);
 - Medicines management (fair); and
 - Diagnostics (pathology, imaging and endoscopy) – excellent (only 16 Trusts in the country achieved this high score).

Table 3 Summary of findings from Acute Hospitals Portfolio

Although the Trust scored excellent for diagnostics overall, there were a few areas identified for improvement

Area	Healthcare Commission score	Finding	Recommendation
Admissions management	Good	<p>Compared to other Trusts, the Trust admits a high percentage of patients who attend A&E (31 per cent) putting it in the upper quartile.</p> <p>A high percentage (28 per cent) of medical admissions through A&E are discharged on the same day.</p>	<p>Investigate the reasons for a high admission rate of patients attending A and E, particularly those who are discharged on the same day.</p>
		<p>The length of stay for patients admitted on a Thursday is longer than those admitted on other days showing a worse performance than at other Trusts- the Trust could save around 10 per cent of emergency medical bed days if length of stay was reduced.</p>	<p>Investigate the reasons why patient length of stays are longer when admitted on a Thursday and put in place measures to resolve these issues.</p>
		<p>The average length of stay (LOS) has increased since our previous review in 2002 for patients admitted with a myocardial infarction (MI). Twelve per cent of bed days could be saved if the LOS was reduced from the Trust's current level of seven days to the national lower quartile of six days.</p>	<p>Reduce the average length of stay for patients admitted with an MI.</p>

Area	Healthcare Commission score	Finding	Recommendation
		<p>The Trust has comparatively high numbers of medical beds per 1,000 population putting it in the upper quartile when compared to other trusts.</p> <p>The number of emergency admissions is correspondingly high and is also in the upper quartile.</p>	<p>Investigate the appropriateness of the high number of medical beds and emergency medical admissions and put in place measures to reduce these where possible.</p>
Medicines management	Fair		
		<p>The Trust risk assesses only 10 per cent of the 70 unlicensed drugs that it uses. As new advances are made in medication, trusts need to take decisions on whether a new drug (which is not yet licensed) may offer patients a better chance of an improved quality of life. Risk assessments help trusts to take decisions on whether to use medicines for conditions for which they are not yet licensed.</p>	<p>Introduce risk assessments for all unlicensed drugs.</p>
		<p>The Trust audits only 5.2 per cent of applicable National Institute of Clinical Excellence (NICE) guidelines – this is the lowest in the comparator group when compared to other trusts.</p> <p>Clinical audits provide a valuable mechanism for checking that a trust's current practices are clinically effective.</p>	<p>Introduce clinical audits of NICE guidance in the future.</p>

Area	Healthcare Commission score	Finding	Recommendation
		Only 11 per cent of patients on four or more medicines receive a comprehensive medication review compared to the upper quartile where over 70 per cent of patients on four or more medicines receive a medication review. The risk of problems increases the more drugs a patient takes making this a high risk group of patients.	Ensure those patients most at risk (on four or more medicines) receive a comprehensive medication review.
Diagnostics	Excellent		
Imaging			
		Waiting times for routine outpatients and GP imaging examinations are longer than average with some in or close to the worst performing 25 per cent of trusts nationally	Reduce waiting times for all routine outpatients and GP referred imaging examinations.
		The percentage of examinations reported by a radiologist or suitably qualified radiographer is in the lower quartile at 80 per cent compared to those Trusts in the upper quartile which reach 100 per cent.	Increase the percentage of examinations reported by a radiologist or suitably qualified radiographer, or draw up formal arrangements for experienced referring clinicians to interpret images themselves.
Pathology			
		Staff costs per test are high (in the upper quartile) for haematology when compared to other trusts.	Understand why haematology costs are higher than at other trusts and seek to reduce these.
		Rates of short term sickness/ absence for medical technical officers and laboratory assistants are in the upper quartile. Annual staff turnover is also close to the upper quartile resulting in a relatively unstable workforce in the pathology department.	Undertake work to improve the stability of staff groups within the pathology department.

Area	Healthcare Commission score	Finding	Recommendation
Endoscopy			
		The Trust is in the upper quartile for unplanned admissions compared to other trusts.	Understand the reasons for, and put in place changes to reduce, the proportion of unplanned admissions.
		Compared with other trust, this Trust has an unstable endoscopy workforce. Use of bank and agency staff is high, in the upper quartile. Sickness and absence rates are above the median.	Reduce the proportion of bank and agency staff used in the department.

37 The Trust has agreed action plans for each of the above areas to further improve its performance.

Recommendation
<i>R7 The Board should ensure that areas identified for improvement by our Acute Hospitals Portfolio work are followed up and that appropriate action is taken to implement the agreed recommendations.</i>

Closing remarks

- 38 This letter will be discussed and agreed with the Chief Executive and Director of Finance. A copy of the letter will be presented at the Audit Committee on 19 November 2006 and copies will be provided to all Board members.
- 39 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. These are listed in the following table.

Table 4 Reports issued in relation to the 2005/06 audit

Planned output	Actual date of issue
Audit Plan	May 2005
Acute Hospitals Portfolio <ul style="list-style-type: none"> • Diagnostics (Endoscopy, Imaging and Pathology); • Medicines Management; and • Admissions Management. 	July 2006
Annual Governance Report	June 2006
Opinion on Financial Statements	July 2006
Value for Money Conclusion	July 2006
Final Accounts Memorandum	September 2006
Auditors' Local Evaluation	Interim results reported in May 2006 Final confirmed scores - September 2006
Annual Audit Letter	October 2006

- 40 I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Trust's own agenda. We recognise the value of your co-operation and support.

Simon Garlick
Engagement Lead

December 2006