



INFRASTRUCTURE, GOVERNMENT &
HEALTHCARE

Annual Audit Letter 2007-08

University Hospitals of
Leicester NHS Trust
22 September 2008

AUDIT

Content

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This report is addressed to the Trust and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Bostock who is the engagement lead to the Trust, telephone 0121 232 3241 email andrew.bostock@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4063, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 0207 246 4063

Executive Summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from the work that we have carried out during 2007-08 at University Hospitals of Leicester NHS Trust. Although this letter is addressed to the directors of the Trust, it is also intended to communicate those key issues 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. It is the responsibility of the Trust to publish the letter on the Trust website at www.uhl-tr.nhs.uk. Our letter highlights both areas of good performance and provides recommendations to help you improve performance. We have reported all the issues reported in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 1.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to 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 your:

- *use of resources* - that is whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources. Our work in this area is summarised in Section 2 of this letter
- *accounts* – that is the Financial Statements and the Statement on Internal Control. This work is summarised in Section 3.

Key Messages

The key areas which we wish to draw your attention are as follows:

- Following the Trust's decision to cancel its Pathway project, on the grounds of value for money, it is important that the Trust reflects on the lessons learnt from that procurement process and applies them in taking forward its developing future estates strategy.
- As a result of our annual Auditor's Local Evaluation (ALE) work, the Trust's overall ALE score has reduced from 3 (performing well) to 2 (adequate performance). The Trust needs to develop a robust action plan that will address those areas where we have identified scope for improvement in the themes of financial reporting, internal control and value for money.
- In the Trust's remuneration disclosures in its annual report, specific individuals withheld disclosure of salary and pension benefits which is not in accordance with NHS best practice guidance on disclosure of salary information of senior NHS staff. We are aware that the Trust has made significant efforts to address this issue. The Trust should ensure that for future senior manager appointments, it should set out its expectations with regard to full disclosure at the outset of their employment.

Future Issues

- The Trust is currently developing its long term clinical and estates strategy, in consultation with the wider local health economy in response to Lord Darzi's review of the NHS. Agreeing this future vision will be a key step for the Trust over the next few months as it responds to the challenges faced since the cancellation of the Pathway project.
- The Trust needs to ensure that it devotes sufficient time and resource from its finance team to meet the International Financial Reporting Standards accounts conversion timetable set out by the Department of Health.
- Alongside its future strategy development, the Trust's is considering the actions it needs to take to prepare for its future application for Foundation Trust status. Although not an immediate priority, the Trust has taken some initial steps such as establishing a director level lead, reviewing its existing governance arrangements and developing a plan to roll out service line reporting. It is important that the Trust establishes a robust long term project plan with clear actions and milestones to an appropriate timetable that is subject to regular board scrutiny.

Use of resources

The main elements of our use of resources work are:

- *Auditor's Local Evaluation (ALE)* - we assess how well you manage and use financial resources by providing scored judgements on arrangements in five areas (Financial Reporting, Financial Management, Financial Standing, Internal Control, and Value For Money). We also follow up prior year recommendations to support this conclusion.
- *Value for money conclusion* –we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. In part this is based on the ALE assessment and it is also based on the local reviews carried out.
- *Specific risk based work* - we perform local reviews based on a risk assessment of issues facing you. This year we considered the implications of the Trust's cancellation of the Pathway project and its recruitment of an interim Chief Executive.

The key findings from this work are summarised below.

Element of work	Key findings												
Auditors Local Evaluation	<p>Our assessment University Hospitals of Leicester NHS Trust against the five specified areas resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" data-bbox="534 783 1179 1060"> <thead> <tr> <th data-bbox="539 791 868 830">Area</th> <th data-bbox="868 791 1173 830">Score</th> </tr> </thead> <tbody> <tr> <td data-bbox="539 830 868 876">Financial reporting</td> <td data-bbox="868 830 1173 876">2</td> </tr> <tr> <td data-bbox="539 876 868 922">Financial management</td> <td data-bbox="868 876 1173 922">3</td> </tr> <tr> <td data-bbox="539 922 868 967">Financial standing</td> <td data-bbox="868 922 1173 967">3</td> </tr> <tr> <td data-bbox="539 967 868 1013">Internal control</td> <td data-bbox="868 967 1173 1013">2</td> </tr> <tr> <td data-bbox="539 1013 868 1058">Value for money</td> <td data-bbox="868 1013 1173 1058">2</td> </tr> </tbody> </table> <p>Our assessment is based on a range of evidence collected by us during the year and our cumulative audit knowledge. We apply the Audit Commission criteria set out in the guidance issued to auditors and trusts. In addition, we subject our findings and conclusions to a national quality assurance process. As a result of our work, we made a number of recommendations to improve your performance, which included the need to:</p> <ul style="list-style-type: none"> ● More fully embed your assurance framework and strengthen the Trust's risk management processes; ● Maintain up to date strategies in respect of communications and procurement and ensure regular reporting of their progress; and ● Use more extensive benchmarking and reference cost information as part of your strategic approach to improving cost efficiency. <p>The Trust is currently formulating an action plan to address our recommendations.</p>	Area	Score	Financial reporting	2	Financial management	3	Financial standing	3	Internal control	2	Value for money	2
Area	Score												
Financial reporting	2												
Financial management	3												
Financial standing	3												
Internal control	2												
Value for money	2												
Specific risk based work	<p>During the year we have considered the implications of the Trust's Pathway cancellation and its response in developing its future estates and clinical strategies. The Trust should reflect on some of the key lessons learnt from that procurement process and apply them in taking forward its future estates strategy.</p> <p>We have undertaken a specific review of the Trust's process to recruit its interim Chief Executive following the retirement of its Chief Executive in September 2007. We reported our findings to the Trust in February 2008. We concluded that the Trust had undertaken a detailed consideration of its options to replace its former CEO in October 2007, including taking SHA advice, against the backdrop of a need for leadership at this time. However, from our review of the Trust's supporting documentation of the value for money considerations, it could have been improved had it included a detailed person specification for the skills it was looking for at the outset, and a clearer analysis of comparable cost benchmarks for each candidate it considered.</p>												

Use of resources (continued)

Element of work	Key findings
Value for money conclusion	Following the completion of our ALE assessment and specific risk work during the year, we issued an unqualified value for money conclusion for 2007-08. This means that we are satisfied that you put in place proper arrangements for securing economy, efficient and effectiveness in your use of resources.

All recommendations arising from this work have already been communicated to you.

The Audit Commission is a signatory to the concordat between bodies inspecting, regulating and auditing healthcare. All recommendations from our use of resources work are loaded onto the concordat website at www.concordat.org.uk and an annual update of progress against these plans will be provided to the Audit Committee.

PbR Assurance Review

During 2007/08 the Trust received the findings of the external clinical coding audit undertaken as part of the Audit Commission's Payment by Results data assurance framework. The report commended the Trust for a number of areas of good practice and made a number of recommendations to improve the Trust's coding quality including greater clinical and administrative involvement.

A summary of findings is available on the Audit Commission's website.

Audit opinion

We issued an unqualified opinion on your accounts on 20 June 2008. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. We have also confirmed that you have complied with the Department of Health requirements in the preparation of your Statement on Internal Control.

Before we give our opinion on the accounts, we are required to report to your Audit Committee any significant matters identified. We did this in our Audit Memorandum report (June 2008). The key issues are summarised here.

Accounts production and/or adjustments to the accounts

- We received a complete set of draft accounts by the Department of Health deadline supported by good quality working papers.
- The responsiveness of the Trust's staff to audit queries was good with most audit queries being resolved on a timely basis. This contributed to an efficient audit which met the deadlines set by the Department of Health.
- The Trust agreed to amend the accounts for a number of audit adjustments, both of a monetary and non-monetary nature. One adjustment, which did not have a material effect on the financial statements, was not corrected. In accordance with the requirements of International Standard of Auditing 260, we reported this uncorrected audit difference to the Audit Committee
- We also made a number of recommendations for improvement within in our report to those charged with Governance. No high priority recommendations were made.
- We will shortly commence our audit of the Trust's charitable funds and have agreed a timetable to meet the 31 January 2008 deadline for completion to the Charities Commission.

Financial Standing

- NHS bodies are given financial targets every year. One of these, the breakeven duty, is statutory, which means you must achieve it. The others are administrative, which means you should achieve them. Your performance against the targets is outlined below:

Target name	What it means	Your performance
In-year breakeven	Keeping expenditure payable for the year within the amount of income received for the year	✓ You reported a surplus of £577,000
Cumulative breakeven	As above, over a five year period.	✓ You reported a cumulative surplus of £892,000
External Financing Limit	Keeping the requirement for cash financing within a limit set by the Strategic Health Authority	✓ You remained within the EFL by £2,495,000
Capital Resource Limit	Keeping net capital expenditure within a limit set by the Strategic Health Authority	✓ You remained within the CRL by £7,725,000

Challenges for 2008-09

- The Trust is currently developing its long term clinical and estates strategy, in consultation with the wider local health economy in response to Lord Darzi's review of the NHS. Agreeing this future vision will be a key step for the Trust over the next few months as it responds to the challenges faced since the cancellation of the Pathway project.
- The Trust needs to ensure that it devotes sufficient time and resource from its finance team to meet the International Financial Reporting Standards accounts conversion timetable set out by the Department of Health. The Trust has already assigned additional resources to begin this work and develop a project plan. At our regular meetings with the Trust we will review the Trust's progress and bring our insights to bear from experience elsewhere in the NHS and from the private sector.
- Alongside its future strategy development, the Trust's is considering the actions it needs to take to prepare for its future application for Foundation Trust status. Although not an immediate priority, the Trust has taken some initial steps such as establishing a director level lead, reviewing its existing governance arrangements and developing a plan to roll out service line reporting. It is important that the Trust establishes a robust long term project plan with clear actions and milestones to an appropriate timetable that is subject to regular board scrutiny.

Appendix 1: Reports issued

Report	Date issued
2007/08 Audit Plan	October 2007
2007/08 Interim Report	April 2008
Review of Financial Ledger Implementation	June 2008
2007/08 Audit Memorandum	June 2008
2007/08 ALE report	October 2008 in line with the Healthcare Commission publishing its Annual Health Check in mid October 2008