

Annual Audit Letter

Weston Area Health NHS Trust

Audit 2007/08

September 2008



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Status of our reports

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.
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Key message

1 Table 1 summarises our key messages and recommended actions.

Table 1 Key messages

Audit Code Area	Message	Recommended action
Accounts	<p>Audit of the accounts Our audit did not identify any material errors, but a number of significant issues were included in the annual governance report in relation to:</p> <ul style="list-style-type: none"> • the failure to account for partially completed spells; • the incorrect treatment of a change of accounting policy relating to digital hearing aids as a prior period adjustment; • a lack of evidence for deferring research income from 2007/08 to 2008/09; and • uncertainty around the valuation of an intangible asset (Cerner National Care Records Service and allied systems) and the period over which it is being depreciated. 	The Trust should implement the recommendations included in our annual governance and final accounts reports.
Use of Resources	<p>Auditor's Local Evaluation (ALE) We have assessed whether the Trust has adequate arrangements in five areas. Each area was scored between 1 and 4, as follows.</p> <ul style="list-style-type: none"> • Financial reporting - 2. • Financial management - 2. • Financial standing - 2. • Internal control - 2. • Value for money - 2. <p>(1 = inadequate, 2 =adequate, 3 = performing well and 4 = performing strongly).</p>	<p>The Board should monitor the implementation of the Auditor's Local Evaluation action plan.</p> <p>The more significant recommendations are listed in Table 3 of this letter.</p>

Audit Code Area	Message	Recommended action
Use of Resources	Financial standing Whilst the Trust's financial standing has improved, the Trust faces a major challenge in delivering a sustainable medium term financial plan.	The Board should receive monitoring information on a regular basis and ensure that it is scrutinised and challenged, where appropriate.
Use of Resources	Cerner National Care Records Service Continuing problems with the Cerner system have resulted in work around systems still having to be used. The system is difficult and overly complicated to use, training needs to be improved and users have little confidence in the information generated.	The Board should monitor the implementation of the action plan resulting from our review of the implementation of NCRS.
National Fraud Initiative	The Trust did not fully review the matches identified from the 2007/08 National Fraud Initiative.	The Board should ensure that the required data is submitted for NFI 2008/09 and that all reported matches are properly reviewed.

2 Table 2 summarises our audit opinions.

Table 2 Audit opinions

Audit Code Area	Opinion
Accounts	We issued an unqualified opinion on the Trust's accounts.
Use of resources	Our conclusion on the Trust's arrangements to secure value for money in its use of resources was qualified because of weaknesses in relation to data quality.

Purpose, responsibilities and scope

- 3 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 Board 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. We have made recommendations to assist the Trust in meeting its responsibilities.
- 4 The letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Trust is planning to publish this letter on its website.
- 5 As your appointed auditors, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we 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 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider the Trust should be addressing. We have listed the reports issued to the Trust relating to the 2007/08 audit at the end of this letter.

Audit of the accounts

- 7 The production of the statutory annual accounts is the principal means by which NHS bodies discharge their accountability to taxpayers and users of services for their stewardship of public money.
- 8 We are required to issue an opinion on Trust's accounts and whether they represent a 'true and fair' picture of the Trust.

Accounts

- 9 I issued an unqualified opinion on the Trust's accounts on 20 June 2008, before the deadline set by the Department of Health (DH). In my opinion the accounts give a true and fair view of the Trust's financial affairs and of its income and expenditure for the year.
- 10 On 18 June 2008, we presented our annual governance report to the Trust's Audit and Assurance Committee. We drew attention to the following issues.
 - Unclear accounting treatment associated with the costs of the implementation of Cerner Millennium.
 - Lack of evidence for deferred income.
 - Incorrectly accounting for a prior period adjustment in relation to digital hearing aids.
 - Partially completed spells not accounted for.
- 11 Our recommendations for improvement are included in our more detailed final accounts report.

Recommendation

- R1** The Trust should implement the recommendations included in our annual governance and final accounts reports.

Auditor's Local Evaluation – financial reporting

- 12 Our work on the audit of Trust's accounts also forms the basis of our scored assessment on financial reporting. The scored assessment is included in the annual health check which will be published by the Healthcare Commission in October 2008 (see pages 8-10 for further details).
- 13 The Trust was assessed as achieving a level 2; that is, adequate arrangements are in place for financial reporting.

Trust's use of resources

- 14 We are required to conclude on whether 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.
- 15 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). The Audit Commission provides the scores to the Healthcare Commission (HC) to use as part of its annual health check.

Value for money conclusion

- 16 Our conclusion on the Trust's arrangements to secure value for money in its use of resources was reported in our annual governance report. We concluded that the Trust had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources with the exception of the Trust's arrangements to monitor the quality of its published performance information and to report the results to Board members.

Auditor's Local Evaluation (ALE)

- 17 We assessed the Trust's arrangements in five areas. Each area was scored from 1 to 4 (1= inadequate, 2 = adequate, 3 = performing well and 4 = performing strongly). These scores are averaged into a single score and will be published by the Healthcare Commission as part of the annual health check in October 2008.
- 18 We have summarised our scores and key recommendations in Table 3. Whilst the Trust has scored level 2 overall for each area there are still improvements needed at this level before level 3 can be achieved.

Table 3 ALE scores

Area	Level	Conclusion	Key recommendations
Financial reporting	2	The accounts and supporting working papers were of an adequate standard (score = 2). The annual report process exceeded minimum standards (score = 3).	None To maintain Level 3 <ul style="list-style-type: none"> • Ensure that the annual audit letter is published on the Trust's website. • Expand the range of stakeholders that are consulted with on the annual report.
Financial management	2	The Trust's medium term financial strategy is satisfactory (score = 2). The Trust's budget management arrangements met minimum standards (score = 2). Asset management arrangements were adequate (score = 2).	To maintain Level 2 (note – these are new assurances for 2008/09) <ul style="list-style-type: none"> • Demonstrate how cash releasing efficiencies will be achieved. • Calculate and report on how the Trust performs against Monitor's financial risk ratings: <ul style="list-style-type: none"> – liquidity ratio; – EBITDA margin; – return on assets. • Monitor and profile workforce numbers and payroll on a month by month basis. • Monitor budget reports incorporating cost improvements and cost pressures on a monthly basis.
Financial standing	2	The Trust reported a small surplus in 2007/08, but continues to be in breach of its statutory financial duty. The Trust cannot achieve level 3 until its cumulative deficit is cleared, which, according to the Trust's current plans, will be in 2012/13.	None

Trust's use of resources

Area	Level	Conclusion	Key recommendations
Internal Control	2	<p>The Trust's arrangements to manages its significant business risks were adequate (score = 2).</p> <p>The Trust's internal control arrangements were satisfactory (score = 2).</p> <p>The Trust had adequate arrangements to promote probity and propriety (score = 2).</p>	<p>To maintain Level 2</p> <ul style="list-style-type: none"> • Demonstrate that the risk management process identifies risks in relation to partnerships and provides for assurances to be obtained about the management of those risks.
Value for money	2	<p>The Trust had satisfactory arrangements in place for:</p> <ul style="list-style-type: none"> • securing strategic and operational objectives (score = 2); • ensuring services meet the needs of patients, taxpayers and the wider community (score = 2); • monitoring and reporting performance (score = 2) • managing resources (score = 2). 	<p>To maintain Level 2 (note – these are new assurances for 2008/09)</p> <ul style="list-style-type: none"> • Demonstrate that the Trust is working with the SHA to develop its structures and strategic outlook so that it can apply to become a foundation trust at the earliest opportunity. • Ensure that data quality is monitored and the results reported to the Board. • Use the efficiency and productivity metrics published by the NHS to drive improvements in service delivery. • Develop an efficiency strategy underpinned by 'Best Value' principles that recognise service delivery and quality improvement, as well as cost reduction.

(Note: 1= lowest performance, 4 = highest performance)

Recommendation
R2 The Board should monitor the implementation of the Auditor's Local Evaluation action plan.

Financial standing

- 19** The 2006/07 annual audit letter concluded that the Trust's financial standing was weak and that the Trust needed to agree a medium-term financial plan which was sufficient to bring the Trust back into financial balance and recover the Trust's historic deficits.
- 20** The 2007/08 financial plan forecast in year breakeven, although due to the requirement to repay previous years' financial assistance the Trust expected to record a deficit of £5.4 million in 2007/08. However, the Strategic Health Authority agreed, towards the end of 2007, that the £5.4 million was not repayable and confirmed this in writing in May 2008. This enabled the Trust to report a surplus of £8,000.
- 21** The Trust has agreed a five year plan, which if met, will ensure that the Trust's cumulative deficit of £14.2 million is recovered. The Strategic Health Authority recently undertook a review of the Trust's financial plan and concluded that the plan was reasonably robust. However, the Trust faces a major challenge in delivering a sustainable medium term financial plan and is also reliant on significant support from North Somerset Primary Care Trust.

Recommendation

- R3** The Board should receive monitoring information on a regular basis and ensure that it is scrutinised and challenged, where appropriate.

Review of business risk – National Care Records Service

- 22** The Trust identified that the development of the National Care Records Service (NCRS) was a significant risk to the Trust's services both in its ability to treat its patients on a day-to-day basis, and to the general administration of the hospital services. This was confirmed by problems experienced at another trust which had adopted the system in January 2006.
- 23** Whilst the Trust implemented the system six months later in July 2006 this delay was, with hindsight, insufficient to resolve the outstanding problems with the system. These problems have resulted in significant disruption to service deliverability at the Trust.
- 24** The overall remit of our review was to assess how the Trust has and is managing the business risks associated with the implementation of the NCRS and to identify to what extent the information provided by the Trust can be relied upon for management decision making. Our review considered the key project management information and control documentation the Trust used to manage the project to a go live date and beyond. This was supported by a Trust wide survey and interviews with staff involved in the management and usage of the system.
- 25** Overall, the Trust's processes to project manage the implementation of the NCRS proved insufficient to secure an effective implementation of the system. This was principally due to the failure by the suppliers to deliver a system that was fit for purpose. However; the Trust had placed too much reliance on the suppliers correcting the problems found at the other trust and there were weaknesses in level of testing and documentation of the system.

Trust's use of resources

- 26** The Trust's staff have responded well to the need to implement compensatory procedures and systems to address operational needs. There has been a need to implement significant workarounds to address system weaknesses and shortcomings. These were intensified by the constant changes to the system undertaken to resolve the problems.
- 27** A significant watershed was the implementation of version 7.03 of the system in August 2007. This has resolved some of the flaws in the system and has allowed the Trust to start to address reporting problems. However; from the user survey conducted as part of this review, the Trust has a significant way to go before it will have a system that is well regarded by its staff. Further investment in training and support will therefore be required to embed the system.
- 28** We have agreed with the Trust that we will undertake a further staff survey in the coming months.

Recommendation

- R4** The Board should monitor the implementation of the action plan resulting from our review of the implementation of NCRS.

National Fraud Initiative

- 29** The National Fraud Initiative (NFI) is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The output from the most recent exercise was released to participating bodies in 2007 and whilst payroll matches were reviewed by the Trust's Local Counter Fraud Specialist, there was no process in place to follow up creditor matches.
- 30** Nationally, the key results for NFI 2006/07 included:
- in excess of £24 million housing benefit overpayments being detected with a recovery rate of 71 per cent. These have been classified 31 per cent fraud, 62 per cent claimant error and 7 per cent local authority error;
 - 69 council properties being recovered as a result of detected tenancy fraud;
 - 2,819 cases where an occupational pension continued to be paid after the death of the pensioner with associated overpayments of £6.4 million;
 - 16,102 deceased persons' blue badges being cancelled; and
 - the successful introduction of Foreign and Commonwealth Department records of expired visas and refused applications to assist participating bodies with their responsibility to check all prospective employees' entitlement to work in the United Kingdom, as well as helping them ensure that only entitled persons are given access to public funds. The outcomes included:
 - 157 public sector staff being dismissed or resigning;
 - payroll overpayments of £69,000 being recovered;

- 30 housing benefit overpayments totalling just over £70,000 being identified by local authorities;
- one property being recovered following deportation action;
- five market trader licences being cancelled and/or not renewed;
- one right to buy application being stopped; and
- a number of cases where coordinated action with the Border and Immigration Agency led to persons being dismissed and arrested for deportation.

Recommendation

R5 The Board should ensure that the required data is submitted for NFI 2008/09 and that all reported matches are properly reviewed.

Closing remarks

- 31** This letter has been discussed and agreed with the Chief Executive and Director of Finance and was presented to the Audit and Assurance Committee on 10 September 2008. Copies of the letter will be provided to Board members.
- 32** 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. A detailed summary of our recommendations and management responses will be published on the NHS Concordat website. A list of the reports issued is shown in Table 4.

Table 4 Reports issued in relation to the 2007/08 audit

Planned output	Actual date of issue
Audit Plan	March 2007
National Care Records Service	February 2008
Annual Governance Report	June 2008
Opinion on financial statements	June 2008
VFM conclusion	June 2008
Final accounts report	June 2008
Auditor's Local Evaluation (Interim)	May 2008
(Final)	September 2008
Annual Audit Letter	September 2008

- 33** We recognise that this has been another very challenging year for the Trust. In our view, however, the Trust has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Trust's assistance and co-operation.

Richard Lott
Engagement Lead
September 2008

The Audit Commission

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