

Annual Audit Letter

The Queen Elizabeth Hospital King's Lynn NHS Trust
Audit 2008-2009
September 2009

Contents

Key messages	3
Financial statements and Statement on internal control	5
Use of resources	6
Closing remarks	9
Appendix 1 – ALE key findings and conclusions	11

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 messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I issued an unqualified opinion on the Trust's accounts on 8 June 2009, before the deadline set by Department of Health. In my opinion the accounts give a true and fair view of the Trust's financial affairs at the end of the year and of its income and expenditure during the year.
 - 2 Before giving my opinion I reported to those charged with governance, (in this case the Audit Committee) on the issues arising from the 2008/09 audit. I issued this report on 4 June 2009.
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Financial Statements

- 3 My audit work did not identify any material errors in the financial statements.
 - 4 Amendments were agreed by management, to correct typographical errors and to ensure that the disclosures meet the requirements of NHS Manual for Accounts (MfA). There was no change to the reported surplus or total assets employed as a result of these amendments.
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Use of resources

- 5 I issued an unqualified Value for Money conclusion stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Audit fees

Audit Commission Code work	Audit Fee - £'s
Financial Statements	99,765
Value for money work (VFM conclusion and ALE)	18,635
Total audit fees	118,400
Non-audit work	
Treasury Management	7,650
Mock Board to Board	10,000
IFRS arrangements	10,000
Total	146,050

Independence

- 6 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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.

Significant issues arising from the audit

- 7 My audit work did not identify any significant issues arising from the audit.
- 8 My audit planning identified a number of areas of judgement and audit risk in relation to tight deadline for accounts preparation, risk of manipulation of accounts to meet financial targets, systems weaknesses and fixed asset accounting issues identified in the prior year audit, compliance with the Manual for Accounts and the completeness of provisions. I considered each specifically as part of my audit and was able to gain sufficient audit assurance against each of the issues for opinion purposes. My Annual Governance Report sets out these assurances in detail.
- 9 I did identify through my audit, a number of non trivial errors in the financial statements. Management chose not to amend for these errors and as required by Auditing Standards, I reported these to the Audit Committee. Following the consideration of these errors, the Audit Committee, as 'those charged with governance' ratified the view of management. The net impact of amending for these items would have been to reduce the trust's reported surplus by £20,000.

Material weaknesses in internal control

- 10 I reported a number of significant weaknesses in the system of internal control in my interim audit report on 2 April 2009. I was able to perform alternative procedures to obtain sufficient assurance that the weaknesses had not led to a material error in the financial statements.
- 11 I will follow up on the recommendations that I made to mitigate these weaknesses as part of my 2009/10 audit programme.

Accounting Practice and financial reporting

- 12 I considered the qualitative aspects of your financial reporting and reported in my Annual Governance Report that the Trust could not locate the agreed financial schedules which support the signed Service Level Agreements (SLAs) with PCTs.

Use of resources

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

- 13** In forming my scored ALE judgements, I have used the methodology set out in the 'ALE for Trusts' guidance. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 14** 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. The Trust's ALE scores for the five key areas are shown in Table 1 below. The key findings and conclusions for the five areas, and the underlying KLOE, are summarised in Appendix 1.

Table 1 ALE scores

Key area	Scored judgement
Financial reporting	2
Financial management	3
Financial standing	3
Internal control	3
Value for money	3

- 15** In many areas the trust has improved its ALE scores; in particular Financial Standing and Internal Control have improved from 2 to 3. There has also been notable improvement within individual themes for Value for Money. The score for financial reporting has deteriorated from 3 to 2.

VFM Conclusion

- 16** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I issued an unqualified conclusion stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. My conclusions on each of the areas are set out in Appendix 1.

Additional Services

We have been able to support the Trust in the delivery of its strategic objectives by providing additional assurance in key areas.

During 2008/09 we completed our additional services work as agreed within our audit plan in two key areas.

Review of Treasury Management Arrangements

- 17** This work was designed both to take stock of and evaluate the Trust's current treasury management arrangements, and to make constructive recommendations for how the Trust can develop these arrangements to prepare for FT status.
- 18** We focused on three areas during this review;
- General treasury management arrangements;
 - Short term working capital management; and
 - Long term planning and investments.
- 19** We issued a detailed report of our findings in April 2009. In general we found that the Trust's treasury management arrangements were sound but we made a number of recommendations where the trust could enhance the treasury management policies and skills of staff as it moves towards FT status.
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Integrated Business Planning review and mock Board to Board session

- 20** On 21st October 2008, the Trust board held a mock board to board challenge with staff from the Audit Commission's Trust Practice. The event was designed to help prepare the board for its forthcoming meeting with Monitor in support of its foundation trust application.
- 21** We issued a report that summarised the main points arising from the day. The report also included a schedule of issues and possible questions arising from our analysis of the Trust's integrated business plan and supporting papers
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International Financial Reporting Standards (IFRS)

- 22** All NHS bodies were required to submit to Department of Health (DH) their 1 April 2008 balance sheet restated in IFRS format by 31 December 2008. DH guidance required that all information arising from the restatement was subject to review by auditors.
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- 23** We therefore conducted our review using the Commission's procedures agreed following discussion with the DH and the National Audit Office (NAO), which focus on the arrangements NHS bodies have put in place to restate the opening balance sheet.
- 24** We concluded that the Trust had adequate arrangements in place to prepare re-stated financial statements which were not materially misstated.

Closing remarks

- 25** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. We will present this letter at the Audit Committee on 21 September 2009 and will provide copies to all board members.
- 26** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Trust during the year.

Table 2

Report	Date issued
Audit Plan	October 2007
Mock Board to Board Event	October 2008
Interim Audit Report	April 2009
Annual Governance Report	June 2009
Treasury Management Arrangements	June 2009
Audit Opinion/ VFM Conclusion	June 2009
Annual Audit Letter	September 2009

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

Looking Forward

- 28** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, and for NHS Trust's severe pressure on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.

- 29 As the Trust's appointed auditor, I will continue to reflect on the Trust's response to these wider environmental issues and work with the Trust where possible to address any specific risk areas.



Mark Hodgson

Engagement Lead

September 2009

Appendix 1 – ALE key findings and conclusions

The following tables summarise the key findings and conclusions for each of the five key areas.

Financial reporting

Overall score 2	
Key findings and conclusions	
<p>The trust's arrangements for financial reporting largely ensure that it produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. The 2008/09 accounts included one non trivial error that required the amendment of a primary statement.</p> <p>The trust was found to have met the requirements for level 2 in its promotion of external accountability but there was no evidence that consultation was undertaken on the annual report with key stakeholders, the annual report includes only limited commentary about trends and whilst green initiatives and recycling schemes are included in the Annual Report there is no analysis about the Trust's environmental footprint.</p>	
KLOE 1.1 (annual accounts) Score VFM criterion met	2 Yes
KLOE 1.2 (external accountability) Score VFM criterion met	2 Yes

Financial management

Overall score 3	
Key findings and conclusions	
<p>The trust's medium-term financial strategy, budgets and capital programme were found to be soundly based and designed to deliver its strategic priorities although the trust did not meet the higher level 4 requirements.</p> <p>The trust was found to manage its performance against budgets appropriately but agreed budget virement documents were not always completed and the amendment of journals were not normally authorised.</p> <p>The trust was found to manage its asset base appropriately. Access statements referring to the use of the estate are now discussed at Board level.</p>	
<p>KLOE 2.1 (financial strategy and budgets)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>KLOE 2.2 (managing performance against budgets)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>KLOE 2.3 (asset base)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>

Appendix 1 – ALE key findings and conclusions

Financial standing

Overall score 3	
Key findings and conclusions	
The Trust met all the requirements at level 3, which is an improvement on the previous year's assessment. The trust has broken even in each of the last 2 years and has now meet its CRL for the last two years, leading to this year's improved assessment.	
KLOE 3.1 (managing within available resources)	
Score	3
VFM criterion met	Yes

Internal control

Overall score 3	
Key findings and conclusions	
<p>Procedures have been established for the assurance framework, risk management process, embedding into the corporate business process and training relevant staff and Non Executive Directors..</p> <p>The Trust has arrangements in place to maintain a sound system of internal control including the update of critical system procedure notes and the audit committee self assesses its performance, has an annual plan and produces an annual report to the board.</p> <p>The Trust's arrangements to promote and ensure probity and propriety in the conduct of its business are adequate but it was identified that the Nolan principles, whilst formally adopted by the Trust, are not fully embedded in the Trust's culture and the Trust's counter fraud arrangements are not yet fully embedded either.</p>	
KLOE 4.1 (significant business risks) Score VFM criterion met	3 Yes
KLOE 4.2 (internal control) Score VFM criterion met	3 Yes
KLOE 4.3 (probity and propriety) Score VFM criterion met	2 Yes

Appendix 1 – ALE key findings and conclusions

Value for money

Overall score 3	
Key findings and conclusions	
<p>The Trust has put in place arrangements to set, review and monitor its strategic and operational objectives and these are now fully embedded although they have yet to deliver a significant number of its objectives.</p> <p>The Trust has developed effective channels of communication with patients, the public, stakeholders and partners and is able to monitor delivery to ensure key messages are taken into account. The Trust is increasingly effective in engaging with user groups, including those seen as hard to reach, and using feedback to inform service design. The improved score reflects the improved engagement with "hard to reach groups"..</p> <p>The Trust has developed processes for monitoring performance that identify variances from objectives, standards and targets, and can demonstrate that action plans have delivered improvements in performance. Action plans to address issues raised by internal or external reports are developed and progress is reported to the board. The Trust is strengthening its arrangements to monitor and ensure data quality.</p> <p>The Trust has developed systems that are managing and improving value for money, especially in its corporate functions, including procurement and in the use of efficiency and productivity metrics provided by the NHS Institute.</p>	
KLOE 5.1 (strategic objectives) Score VFM criterion met	3 Yes
KLOE 5.2 (services) Score VFM criterion met	3 Yes
KLOE 5.3 (data quality) Score VFM criterion met	3 Yes
KLOE 5.4 (managing resources) Score VFM criterion met	3 Yes