



**Royal United Hospital Bath NHS Trust  
Annual Audit Letter 2008-09**

September 2009

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# 1 Introduction and key messages

## **Purpose of this letter**

- 1.1 This Annual Audit Letter ('letter') summarises the key issues arising from the work that we have carried out at Royal United Hospital Bath NHS Trust ('the Trust') during our 2008-09 audit. We have tried to write the letter in an accessible style, designed to communicate our key messages to the Trust and external stakeholders, including members of the public. The Letter will be published on the Trust's website.

## **Responsibilities of the external auditors and the Trust**

- 1.2 This letter has been prepared in line with the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).
- 1.3 We have been appointed as the Trust's independent external auditor by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditor, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Trust's key risks when reaching our Code conclusions.
- 1.5 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.

## **What this letter covers**

- 1.6 This letter covers our 2008-09 Code audit, including key messages and conclusions from our work in:
- auditing the 2008-09 year end accounts and the 2008-09 accounts restated under International Financial Reporting Standards (Section 2); and
  - assessing the Trust's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 We have not repeated recommendations agreed with the Trust during the year in this letter. A list of the reports that contain these recommendations can be found at Appendix A. Appendix B sets out our actual and budgeted fees for 2008-09.

## Key messages for Trust

- 1.8 Following our 2008-09 audit we commend the Trust for producing accurate and robust financial statements and for continuing to improve its performance and scores achieved through the Auditor Local Evaluation (ALE) assessment. We recognise that the Trust will build on this performance as it progresses toward foundation trust status.
- 1.9 In order to build on this position the Trust needs to ensure it has the capacity and resources to meet national and local targets. In our review of activity management we identified that although the Trusts has modeled activity for the year and understands the level of capacity required to meet demand and national targets, it has not developed detailed implementation plans. Ward level implementation plans are required to ensure the Trust understands and knows what action is required to ensure that predicted capacity can be met and the impact on national and local targets is fully understood throughout the organisation

## 2 Audit of accounts

### Introduction

- 2.1 We issued an unqualified opinion on the Trust's 2008-09 accounts on 9 June 2009, meeting the deadline set by the Department of Health. Our opinion confirmed that the accounts gave a true and fair view of Trust's financial affairs and of the income and expenditure recorded by the Trust.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to "those charged with governance" (defined as the Audit Committee at the Trust). We presented our Annual Report to those Charged with Governance to the Audit Committee on 8 June 2009 and summarise only the key messages in this letter.

### Audit of the accounts

- 2.3 The Trust performed well in producing a timely and accurate set of accounts against an increasingly tight timetable. The initial set of working papers provided were timely and reasonably comprehensive and responses to our audit queries and requests for further working papers and evidence were adequate.
- 2.4 There were no material adjustments to the accounts. The most significant area of discussion was in relation to asset valuations, and the estimated decline in the value of land and buildings in the current economic climate. We concluded that we were satisfied with the approach taken by the Trust to revise its asset values. We also raised a small number of other proposed adjustments and suggested improvements, none of which were material in nature.

### Financial performance

- 2.5 The Trust met all of its statutory financial targets for 2008-09, as set out below.

**Table 1: Performance against statutory targets**

	Target	Actual	Met
Surplus / (Deficit)	£0	£5,600,000	✓
Capital cost absorption	3.5%	2.5%	✓
External financing limit	£(8,633,000)	£(8,705,000)	✓
Capital Resource Limit	£8,820,000	£8,820,000	✓

- 2.6 The Trust achieved its planned control total of £5.6m surplus. This enabled the Trust to meet the revised repayment plan for its loan from the Department of Health. The 2008-09 financial performance demonstrates the Trust's continued strong financial management.
- 2.7 The Trust's performance against the non-statutory target in relation to the Better Payment Practice Code has deteriorated in 2008-09. The Code requires the Trust to aim to pay all undisputed invoices within 30 days (or due date if later). The Trust paid 89% of non-NHS trade invoices and NHS trade invoices with the target date, compared to 93% in 2007-08. However the Trust's computer system does not allow the exclusion of disputed invoices from this total, as allowed by the code, therefore the figure above understates the Trust's true performance.
- 2.8 In November 2008 the Government asked that NHS organisations pay non-NHS invoices within 10 days of receipt to support businesses in the current economic climate. Up to November the Trust paid 31% of invoices within this target, and from its introduction until the end of the financial year, 63% of invoices were paid within 10 days.
- 2.9 The Trust is forecasting a surplus of £5.8million at the end of 2009-10 in order to meet its Department of Health loan repayment. Based on the position at the end of July 2009, the year to date showed a £3.9million adverse variance against that target. The 2009-10 budget includes achievement of £17.0million of savings. A large proportion of this relates to the agreed level of service commissioned by local primary care trusts.
- 2.10 Therefore, although the Trust has set a balanced budget for 2009-10, the financial position is challenging and management recognises that strong financial controls will need to be in place during the year to meet financial targets, whilst investing in planned service developments.

## Financial systems

- 2.11 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Trust's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.
- 2.12 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Trust's 2008-09 accounts. We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact our audit of the accounts.
- 2.13 Our interim audit identified scope for improvement in some of the financial controls, particularly in relation to the internal audit service. We agreed an action plan with management to address all of the control issues identified, and the change in internal audit supplier provides the opportunity to action these recommendations.

## Statement on internal control and annual report

- 2.14 We examined the Trust's arrangements and process for compiling the Statement on Internal Control (SIC) and read the SIC to consider whether it was in accordance with our knowledge of the Trust. We also reviewed the draft version of the Trust's annual report to confirm that this was consistent with our knowledge and to confirm that the summary financial information included within it was consistent with the audited financial information.
- 2.15 We concluded that the SIC and annual report were consistent with our knowledge of the Trust, subject to a small number of proposed adjustments, which management incorporated into the final versions of the documents. It will be important for the Trust to ensure timely and robust action is taken to implement the required control improvements identified in the SIC.

## Restatement of the 2008-09 accounts under IFRS

- 2.16 On 11 June 2009 the Department of Health issued "Guidance for the restatement of 2008-09 results to an IFRS basis". This required Trusts to submit to the Department of Health pro-forma restated 2008-09 financial statements, previously prepared under the NHS Manual for Accounts 2008-09 based on United Kingdom Generally Accepted Accounting Principles, on the basis of the accounting policies contained in the NHS Manual for Accounts 2009-10 based in International Generally Accepted Accounting Principles (referred to as IFRS).
- 2.17 The Audit Commission determined that auditors would report to the Department of Health on the restated figures under IFRS.
- 2.18 Our work consisted primarily of:
- checking whether the unadjusted financial information of the Trust had been accurately extracted from an appropriate source;
  - assessing whether all adjustments necessary for the purpose of presenting the financial information consistent in all material respects with the accounting policies contained in the NHS Manual for Accounts 2009-10 had been made;
  - examination of evidence supporting the adjustments; and
  - checking the arithmetical accuracy of the adjustments.
- 2.19 On 17 April 2009, we issued our report to the Department of Health, which stated that, in our opinion, the restated financial statements (and associated financial monitoring forms) had been properly prepared and were consistent in all material respects on the basis of the accounting policies contained in the NHS Manual for Accounts 2009-10.
- 2.20 In carrying out our work, we identified some scope for the Trust to improve its accounting under IFRS, and reported the outcome of our work to the Audit Committee on 24 March 2009.

## Looking ahead

- 2.21 The 2009-10 financial statements are required to be produced in full under IFRS. Although the Trust has made good progress to date, it will face a challenge in achieving good quality accounts with few errors against a national closedown timetable that remains very demanding. We will continue to work with management in preparation for production of IFRS compliant 2009-10 accounts. To support the Trust, we have met with the senior finance team to discuss the audit process in our first year, and how we can work together to achieve faster closure in 2009-10.

## 3 Use of resources

### Introduction

- 3.1 We issued our annual VFM conclusion on 9 June 2009, at the same time as our accounts opinion, meeting the deadline set by the Department of Health. We concluded that, for 2008-09, the Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 3.2 Our VFM conclusion was based our on the results of Auditors' Local Evaluation Assessment (ALE) and specific work on locally identified audit risks, which have contributed to our VFM conclusion by either feeding into our ALE assessment scores, or have been separately reported.
- 3.3 The ALE assessment, the review of the National Programme for IT in the SW Local Health Economy and the Review of Activity Management have been separately reported to senior managers and the Audit Committee. This letter provides a high level summary, further detail and information can be obtained from the individual reports.

### 2008-09 VFM conclusion and ALE assessment

- 3.4 The VFM conclusion for NHS bodies comprises an assessment of arrangements for twelve Code of Practice criteria. These are linked to specific ALE judgements across the five ALE themes and our assessment is summarised in Table 2.

**Table 2: Code of Audit Practice Criteria**

Code of Audit Practice Reference	Code of Audit Practice Criteria	ALE Theme (KLOE)	Auditor Conclusion
1	The Trust has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	5.1	Achieved.
2	The Trust has put in place channels of communication with patients and their representatives, and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	5.2	Achieved.

Code of Audit Practice Reference	Code of Audit Practice Criteria	ALE Theme (KLOE)	Auditor Conclusion
3	The Trust has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to the Board.	5.3	Achieved.
4	The Trust has put in place arrangements to monitor the quality of its published performance information, and to report the results to Board members.	5.3	Achieved.
5	The Trust has put in place arrangements to maintain a sound system of internal control.	4.2	Achieved.
6	The Trust has put in place arrangements to manage its significant business risks.	4.1	Achieved.
7	The Trust has put in place arrangements to manage and improve value for money.	5.4	Achieved.
8	The Trust has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	Achieved.
9	The Trust has put in place arrangements to ensure that its spending matches its available resources.	3.1	Achieved.
10	The Trust has put in place arrangements for managing performance against budgets.	2.2	Achieved.
11	The Trust has put in place arrangements for the management of its asset base.	2.3	Achieved.
12	The Trust has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Achieved.

3.5 We assessed the Trust as achieving level 3 or above, in all of the areas covered by our ALE assessment. The Trust has continued to improve during 2008-09 and is demonstrating excellent and innovative performance in internal control. These scores for the Trust have been confirmed following Audit Commission national quality control and the five theme scores are set out in Table 3.

**Table 3: ALE scores**

<b>Theme</b>	<b>2008</b>	<b>2009</b>
1 Financial Reporting	2	3
2 Financial Management	3	3
3 Financial Standing	2	3
4 Internal Control	3	4
5 Value for Money	3	3

- 3.6 The scores above have been evaluated at regional and national quality assurance. The Trust was formally notified by the Audit Commission of the pre-publication scores in August, to enable the review process to take place. The final scores will be published in October 2009.
- 3.7 Within our ALE assessment report we have identified areas for improvement, and, whilst these improvements do not impact on the VFM conclusion, they provide areas which would further consolidate or hopefully progress the Trust to a higher score.
- 3.8 We agreed an action plan with management to implement these recommendations, and will follow-up on progress as part of the 2009-10 audit.
- 3.9 As set out in our 2009-10 indicative fees letter presented to the Audit Committee on 24 March 2009, use of resources at trusts will continue to be assessed under the ALE framework for 2009-10. The Audit Commission is consulting on the key lines of enquiry for ALE but aims to keep any changes to a minimum. It intends that for trusts that score a three or four in a theme in 2008-09, the Trust will not be assessed under ALE for that theme in 2009-10, provided that it is clear that performance is being maintained. Given the Trust's 2008-09 scores, we have made provision in the planned 2009-10 fee for this reduction in the extent of our work.

## Local risk based reviews

### NPFIT review within the South West health economy

- 3.10 The National Programme for IT (NPFIT) in the South West was identified as a risk area following the termination of the contract with Fujitsu as the Local Service Provider (LSP) in the Southern. As a result it was important that NHS bodies recognise, register and manage these risks to ensure that care provision and reporting meet requirements. The future arrangements needed to be assessed to ensure that full NPFIT Local Ownership Programme (NLOP) responsibilities are being met.
- 3.11 The Trust committed significant resources and intended to implement a new and improved patient administration system in June 2008 and in the proceeding two years. However, following detailed consideration of the risks involved, the Trust Board agreed not to proceed. Following this decision the Trust Board has been fully informed and aware of the risks the Trust faces while it continues to support its

clinical services and administration services using an antiquated patient administration system (TDS).

- 3.12 Our review was completed in early 2009 and our findings reflect the arrangements in place at that time.
- 3.13 The Trust has ensured that, as far as possible, the risks are mitigated and new arrangements introduced to ensure existing systems are supported until September 2009. The Trust was aware that the options available were limited, as only one other Trust in England has TDS, therefore negotiating competitive costs was difficult.
- 3.14 The main area of concern is the ability of TDS to support SUS (secondary uses service) requirements to monitor referral to treatment times. The Trust is required to do this from April 2009, in order to achieve this an alternative system is being developed.
- 3.15 Business continuity arrangements are in place. These include both IT processes and operational procedures. Although these arrangements do not include complete failure of the referral to treatment on-line system and the Trust should ensure it continues to monitor the risk that these arrangements present.
- 3.16 Our overall conclusion is that although the Trust faces significant risks, it is aware of and is managing the risks. However, to meet the SUS reporting arrangements and choose and book requirements, maintaining TDS is only a short term option. In addition it should be noted that the increased costs and subsequent funding of the replacement of TDS have yet to be resolved.

### **Review of activity management**

- 3.17 The Trust has experienced and is continuing to experience significant increases in both its elective referrals and its emergency admissions, elective referrals by 10% and emergency referrals by 11% in 2008-09. Increased referrals can have a positive impact and increase income, but yet, at the same time have a negative impact on hospital capacity adversely affecting national waiting time targets.
- 3.18 Effective forecasting and business management increase in importance, in order to ensure the Trust is able to manage capacity and maintain access targets and waiting times. Capacity plans, including winter planning need to be robust and effective to ensure the Trust can continue to delivery quality healthcare at high activity levels.
- 3.19 The Trust is also required to deliver shorter and more challenging access targets. Accurate capacity planning and demand forecasting is crucial to the delivery of these targets.
- 3.20 In order to ensure the Trust has effective arrangements in place as part of this review we considered:
- the arrangements in place to forecast demand, including the robustness of any assumptions made (both elective and emergency);
  - the impact of fluctuations in activity on income;

- the Trust's capacity plan to ensure it is robust, based on sound assumptions and aims to meet the levels of expected demand; and
  - the arrangements in place to reduce delayed transfers for both emergency patients and elective patients.
- 3.21 We concluded that the Trust has in place a comprehensive five-year demand model, based on reasonable short-term assumptions, whilst, longer-term demographic changes are not as robust. Divisions are beginning to understand how activity impacts hospital capacity, but have yet to turn the capacity issues into deliverable actions to ensure the predicted capacity can be met.
- 3.22 We also recognised that demand and capacity planning is difficult, whilst activity for 2009-10 has not been agreed with the Trust's main commissioners. Variations in activity can have a significant financial impact on the Trust. The Trust is continuing to work with its commissioners to ensure agreement on the level of activity to be funded prior to the start of the financial year.
- 3.23 These local risk based reviews confirmed and support our view that the Trust has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

### Looking ahead

- 3.24 We agreed our indicative 2009-10 audit fee with the Trust. Our fee letter set out our initial assessment of the local risk based use of resources work we plan to carry out to support our VFM conclusion. This comprised:
- review the Trust's performance against contract and budget monitoring;
  - review of the Trust's strategy for capital development and risk management plans to ensure that the programme is delivered on time and on budget, and the result is fit for purpose; and
  - the Trust's approach and achievement of long term efficiency savings.
- 3.25 Through discussions with the Trust prior to agreement of our final plan in December 2009 we will confirm if these risks remain relevant. Those risks which remain relevant will be built into the risk assessment for our 2009-10 plan, along with specific follow up of our 2008-09 recommendations and any new risks emerging between now and when we agree our plan.

## 4 Closing remarks

### **Introduction**

- 4.1 This Letter was agreed with the Director of Finance on 10 September 2009, for presentation to the Audit Committee on 21 September 2009.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Trust's own agenda. We recognise the value of your co-operation and support.

**Grant Thornton UK LLP**  
**September 2009**

## Appendix A - 2008-09 reports issued

<b>Report</b>	<b>Date issued</b>
Audit Plan	March 2008
IFRS Phase 1 restatement	March 2009
Use of Resources	June 2009
Annual Report to those Charged with Governance	June 2009
Review of activity management	August 2009
Annual Audit Letter	September 2009

## Appendix B - Audit and other fees 2008-09

Audit area	Budget 2008-09	Actual 2008-09
Financial statements	95,000	95,000
VFM conclusion / use of resources	70,000	70,000
<b>Total code of practice fee</b>	<b>165,000</b>	<b>165,000</b>
IFRS phase 1 restatement work, mandated by the Audit Commission	9,000	9,000
<b>Total fees</b>	<b>174,000</b>	<b>174,000</b>



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