
James Paget Healthcare NHS Trust

Annual Audit Letter
Audit 2005/2006
September 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; and
- 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.

Copies of this letter

If you require further copies of this letter, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Contents

Purpose, responsibilities and scope	4
The purpose of this letter	4
The responsibilities of the auditor and the Trust	4
The scope of our work	4
Foundation trust status	5
Key messages	6
The audit of the accounts	7
Accounting issues	7
Financial standing	8
The Trust's use of resources	9
Value for money conclusion	9
Auditor's Local Evaluation	9
Specific risk-based work	10
Closing remarks	12

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 should also be published on the Trust's 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 Healthcheck.
- 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.

Foundation trust status

- 8 As a reflection of its continued levels of high performance the Trust attained foundation trust status with effect from 1 August 2006.

Key messages

- 9 The following matters should be considered by the Trust Board.

Table 1 Key conclusions and required actions

Area	Issue/conclusion	Recommended action
Accounting issues	The Trust produced high quality accounts and working papers and an unqualified audit opinion was given on 4 July 2006 in advance of the deadline for trusts.	The Audit Committee should monitor progress and outcomes against the Governance Report and Regularity Report action plans.
Financial standing	The Trust made a £1.527 million surplus in 2005/06 and planned savings of £4.1 million for 2005/06 were achieved. The Trust continues to operate in challenging local health economy and has a target to achieve a £4.89 million cost improvement programme in 2006/07.	The Board must continue to monitor progress against the financial targets set out in the cost reduction programme and take corrective action where necessary. The Board needs to be confident that the planned actions will meet the required financial outcomes.
Value for money	We concluded that the Trust had proper arrangements in place to secure value for money in the use of resources.	
Auditor's local evaluation	The Trust is consistently performing at above minimum standards in all five areas assessed. No specific recommendations have been made as a result of this, although our detailed ALE report indicates areas where arrangements can be further strengthened and embedded.	Management should consider the improvement areas included in our ALE report and assess where arrangements should be further strengthened.

The audit of the accounts

- 10 We were able to issue an unqualified opinion on the Trust's accounts on 4 July 2006, in advance of the deadline set by the Department of Health. 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, in this case the Trust's Audit Committee, significant matters arising from the audit. A detailed Governance Report was issued on 14 June 2006 and only the key issues are summarised here.

Accounting issues

- 12 The accounts were produced on time and were complete. Once again the standard of working papers provided was high and the Trust responded well to our requests for further information.
- 13 For the first time in some years, a material (£2.9 million) adjustment was made to the accounts this year as a result of the audit. This adjustment was necessary in order to comply with the NHS Capital Accounting Manual and was a transfer between the Revaluation Reserve and the Income and Expenditure (I&E) Reserve to reflect an approximation of the 'excess depreciation' charged on assets that had been revalued or indexed upwards over a number of years. Whilst this adjustment was significant in terms of size, we do not consider that it detracted from the overall standard of the accounts presented for audit and it had no impact on the Trust's reported surplus.
- 14 In addition to the material adjustment noted above we noted the following issues in the Governance Report.
 - Internal Audit had not completed its planned work on the Trust's financial systems by June 2006. Only three of twelve planned reports had been issued in final format. We understand that management have received assurances that, following the takeover of Supporta PLC by Bentley Jennison, this situation will not recur in 2006/07. The Internal Audit function is a cornerstone of the corporate governance framework, and we recommended that the Audit Committee maintain close control over the delivery of the Internal Audit programme. We understand that the Deputy Director of Finance now meets the Internal Audit client manager on a monthly basis.
 - Our audit work detected occurrences within the Supplies Department whereby standing financial instructions (SFIs) regarding the approval of purchase order requisitions were not applied in accordance with our understanding of the SFI requirements. Whilst we have no reason to believe that this has given rise to inappropriate purchases, management should review current practice against the SFIs and ensure that they are brought into line. We understand management is currently carrying out a review of the situation.
- 15 As part of the Governance Report we agreed an action plan with the Trust to address these matters.

- 16 In addition to our Governance Report, we also issued our draft Regularity Report to the Trust in August 2006. This covers the more minor issues where we believe further improvements could be made to the Trust's accounts process and internal controls.

Recommendations

R1 The Audit Committee should monitor progress and outcomes against the Governance Report and Regularity Report action plans.

Financial standing

- 17 Reflecting its strong financial performance, the Trust made a surplus in 2005/06 of in excess of £1.5 million. However, despite greater freedoms afforded to it as an FT, the Trust continues to operate in a very difficult local health economy, and has produced a performance improvement and cost reduction programme for 2006/07 that requires savings of £4.89 million. Whilst this is a challenging target, similar scale cost improvement plans in recent years have been achieved by the Trust and, by July 2006, a significant proportion of the required savings had already been made.

Recommendations

R2 The Board must continue to monitor progress against the financial targets set out in the performance improvement and cost reduction programme and take corrective action, as appropriate, to ensure financial targets are met. The Board needs to be confident that the planned actions will meet the required financial outcomes.

The Trust's use of resources

- 18 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.
- 19 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.

Value for money conclusion

- 20 We concluded that the Trust had proper arrangements in place to secure value for money in the use of resources. This assessment covered the following areas:
- strategic objectives;
 - communication;
 - performance management;
 - data quality;
 - internal control;
 - risk management;
 - improving value for money;
 - financial strategy;
 - matching spending to resources;
 - budget setting and monitoring;
 - asset management; and
 - probity.

Auditor's Local Evaluation

- 21 We assessed the Trust's arrangements in five areas. Each area was scored from 1 to 4 (1= below minimum arrangements - 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 draft report supporting our assessment and highlighting areas for improvement was issued to the Trust in October 2006.

Table 2 ALE scores

Area	Score	Recommended action
Financial reporting	3	No significant weaknesses or necessary actions; our ALE report details the areas of improvement that would enable the Trust to further embed its arrangements.
Financial management	3	No significant weaknesses or necessary actions; our ALE report details the areas of improvement that would enable the Trust to further embed its arrangements.
Financial standing	3	See comments on page 8 above. No significant weaknesses or necessary actions; our ALE report details the areas of improvement that would enable the Trust to further embed its arrangements.
Internal control	3	No significant weaknesses or necessary actions; our ALE report details the areas of improvement that would enable the Trust to further embed its arrangements.
Value for money	3	See comments on page 9 above. No significant weaknesses or necessary actions; our ALE report details the areas of improvement that would enable the Trust to further embed its arrangements.

- 22 The Trust’s scores reflect its solid overall performance. The ALE report details areas where actions could be taken to strengthen and further embed arrangements and we will shortly agree an action plan with the Trust to facilitate this.

Recommendation

R3 Management should consider the improvement areas included in our ALE report and assess where arrangements should be further strengthened.

Specific risk-based work

- 23 We also carried out a specific pieces of work as follows:
- follow-up review of last year’s waiting list spot check audit; and
 - the Acute Hospitals Portfolio.



- 24 Our spot check follow-up work concluded that the Trust had made good progress on the 2004/05 action plan and a return was provided to the Healthcare Commission reporting positive progress against recommendations.
- 25 Our Acute Hospitals Portfolio work is still in progress and will be reported to the Trust later in 2006.

Closing remarks

- 26 This letter has been discussed and agreed with the Chief Executive and Director of Finance. A copy of the letter will be presented at the Audit Committee on 20 September 2006 and copies will be provided to all Board members.
- 27 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 3 Reports issued in relation to the 2005/06 audit

Planned output	Actual date of issue
Audit Plan	April 2005
Regularity Report (covering issues from our interim and final accounts audit visits) - draft	August 2006
Spot Check Follow-up	April 2006
Acute Hospitals Portfolio	Issue delayed due to national problems with the data.
Annual Governance Report	June 2006
Opinion on Financial Statements	July 2006
Value for Money Conclusion	July 2006
Auditors' Local Evaluation - draft	October 2006
Annual Audit Letter	September 2006

- 28 This has been a successful year for the Trust in the context of a challenging local health economy, culminating in the Trust's successful FT application. Directors and officers have taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Trust's assistance and co-operation.

Andy Perrin
Engagement Lead

September 2006