

Annual Audit Letter

Bedford Hospital NHS Trust

Audit 2008/09

October 2009



The Audit Commission's

Trust Practice

 **audit**
commission

Contents

Key messages	3
Financial statements and statement on internal control	4
Use of resources	6
Closing remarks	8

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.
-

Key messages

This report summarises the findings from my 2008/09 audit. It includes messages from the audit of your financial statements and from an assessment of how you get value for money from your resources.

Background

- 1 The economic downturn and banking crisis is having a significant impact on public finances and the bodies that manage them. The Trust has seen the impact of these changes and revised the assumptions in its medium term financial models supporting its application for foundation trust status. It is encouraging to see that against this backdrop the Trust has continued to strengthen the way it manages its finances.
-

Financial statements

- 2 The Department of Health required the Trust to produce financial statements to a tighter deadline this year. Despite this, the Trust met that deadline, enabling me to issue my opinion on time. My opinion was 'unqualified' meaning that I agreed that they showed a true and fair view of the financial position of the Trust.
 - 3 My audit found some errors. Most of these errors would not have been significant enough to change my opinion on the accounts, but two of them were. The first error related to the way that the Trust had accounted for drops in market value of its property assets and I explain this later in this report. The second error related to the way the Trust described assets that it purchased during the year. The Trust agreed to amend the more significant errors identified during our audit. Those that it did not adjust would have reduced the Trust's surplus by £285,000.
 - 4 This year, I also reviewed how the Trust was preparing for the start of International Financial Reporting Standards (IFRS) which will change the way the Trust prepares its accounts next year. My review showed the Trust had prepared adequately.
-

Use of resources

- 5 The Trust's arrangements for getting value for money from its resources are adequate. This year you improved the way you manage and control your finances which allowed me to give you an improved score in one area of my 'Auditors Local Evaluation' (ALE) assessment.
 - 6 My ALE assessment showed, however, the Trust had got worse at the way it prepared its accounts, notably by the exclusion from the draft accounts of a significant accounting entry. This meant that I had to give you a worse score for financial reporting as part of my ALE assessment. I was, however, able to issue an 'unqualified' value for money conclusion which means that I agreed the Trust had proper arrangements for securing value for money from its resources.
-

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 I issued an unqualified opinion on the Trust's accounts on 10 June 2009, before the deadline set by the Department of Health for NHS bodies to submit audited accounts. In my opinion the accounts gave a true and fair view of the Trust's financial affairs and of its income and expenditure for the year.
 - 8 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 3 June 2009 and I have only repeated the most significant issues in this letter.
-

Reported issues

- 9 The accounts presented for audit contained some errors, some of which the Trust amended before I issued my audit opinion. I reported details of these, along with significant remaining unadjusted errors and any weaknesses in internal controls, to the Trust's Audit Committee. I outline the largest area of amendment below.
 - 10 NHS trusts record their property assets in its balance sheet at their market value. Trusts review these values yearly and periodically seek a professional valuation. When a trust experiences an increase or decrease in the value of its property assets it usually records the increase or decrease in a revaluation reserve and this avoids a change in the trust's surplus for the year.
 - 11 Sometimes the value of a property asset can fall so far that its associated revaluation reserve becomes negative. In these circumstances it is usual for trusts to report the remaining decrease in value as a cost to the business (an 'impairment cost') to reduce that year's reported surplus.
 - 12 Sometimes, however, the Department of Health allows NHS trusts to show these falls in value as a negative revaluation reserve. This Trust had accumulated such negative revaluation reserves of £17,156,000 over several years.
 - 13 This year the Department of Health changed their accounting policy in this area. The Trust also reviewed in detail its accounting for property assets as part of its preparations for IFRS accounting. Given that much of the drop in values below cost is unlikely to be reversed in the short or medium term, it is no longer appropriate for the negative revaluation reserves to be retained. The Trust has now removed these negative reserves, accounting for this as a 'prior year adjustment' which means that the change does not affect the surplus for the year.
-

Financial statements and statement on internal control

- 14 Unfortunately, the Trust omitted to report this prior period adjustment in its draft accounts presented for audit, although the Trust reported it in the final, audited version of its accounts.
- 15 As well as this issue, the Trust suffered further declines in the value of its property assets during the 2008/09 financial year of £12,912,000 because of the economic downturn. The Trust has decreased revaluation reserves for the assets affected and once again there are not enough revaluation reserves to fully absorb this decline. The Trust has therefore created a negative revaluation reserve of £2,807,000, instead of allowing this decline to affect this year's surplus. Accounting standards allow this treatment because the Trust expects this decline in value below cost to reverse in the short to medium term.
- 16 The Trust should note the accounting standards that apply to foundation trusts do not allow trusts to create negative revaluation reserves. If the Trust becomes a foundation trust, it will need to remove these reserves from the balance sheet.

International Financial Reporting Standards (IFRS)

- 17 Financial reporting under International Financial Reporting Standards (IFRS) for the NHS is to be introduced from 2009/10. To prepare for this, the Department of Health required trusts to submit their balance sheets as at 1 April 2008 restated to comply with the new standards.
- 18 The Department required trusts to obtain independent verification of the adequacy of the arrangements that the Trust had used to revise its submission to comply with IFRS.
- 19 We provided the assurance the Department required, after a review of the restated 1 April 2008 balance sheet and supporting papers. We found the arrangements themselves were adequate in most areas and found evidence the Trust was taking action in those areas where arrangements needed further strengthening.

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.

Auditor's Local Evaluation judgement (including financial standing)

- 20** In forming my scored ALE judgements, I have used the methodology set out in the 'ALE for Trusts' guidance. I judged 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.
- 21** I have also considered, where appropriate, findings from previous ALE assessments (updating these for any changes or improvements) and any other relevant audit work.
- 22** The Trust's ALE scores for the five key areas are shown in Table 1 below. These scores have been subject to our national quality assurance process and represent the final scores for the Trust.

Table 1 **ALE scores**

Theme	Assessment
Financial reporting	1 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	2 out of 4

(Note: 1 = lowest, 4 = highest)

- 23** There have been some improvements in the way the Trust manages its finances, but we identified some weakness in the way the Trust prepares its accounts (as described earlier in this report). The scores above reflect these issues.

Use of resources

National Fraud Initiative

24 The National Fraud Initiative is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud. The Trust has continued to participate actively with this initiative in 2008/09.

VFM Conclusion

25 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 which means I agreed that the Trust had proper arrangements to secure value for money from its resources.

Closing remarks

- 26 I will discuss this letter with the Chief Executive and the Director of Finance, will present this letter at the Audit Committee on 24 November 2009 and will provide copies 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.

Table 2 **Reports issued**

Report	Date of issue
Audit plan	January 2009
Report to those charged with governance	June 2009
Opinion on financial statements	June 2009
Value for money conclusion	June 2009
International Financial Reporting Standard restatement arrangements	July 2009
Auditor's local evaluation	September 2009
Annual audit letter	October 2009

- 28 The Trust has taken a positive and constructive approach to our audit. I wish to thank the Trust's staff for their support and cooperation during the audit.

Rob Murray
Engagement Lead
October 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
