

Annual Audit Letter

Bedford Hospital NHS Trust

Audit 2009/10

September 2010



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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 messages

This report summarises the findings from my 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my Auditor's Local Evaluation (ALE) of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The Trust has accepted these recommendations.

Audit opinion and financial statements

- 1** The Trust's financial statements and Statement on Internal Control are important means by which the Trust accounts for its stewardship of public funds.
 - 2** I reported the findings of my audit to the audit committee of the Trust and provided an unqualified audit opinion on the Trust accounts in June 2010.
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Use of resources

- 3** I considered how well the Trust is managing and using its resources to deliver value for money and gave a scored Auditor's Local Evaluation (ALE) judgement.
- 4** I also 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 in June 2010.

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.

Overall conclusion from the audit

- 5 I discussed the findings of my audit with the Audit Committee at its meetings in June 2010 and was subsequently able to provide the Trust with an unqualified audit opinion on its accounts for 2009/10.
 - 6 In my report I highlighted some errors in the accounts. The Trust adjusted the majority of the errors identified and those errors remaining unadjusted were not material to my audit opinion.
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Significant weaknesses in internal control

- 7 I identified some weaknesses in your internal control arrangements during my audit. These were in respect of the accounting records supporting property, plant and equipment, proposed reviews of ledger journals, employee establishment list confirmations, management reviews of the accounts and the quality of the supporting audit trail. The last two of these important as they support the timely closedown of the accounts and audit to the prescribed timetable.
- 8 I reported the weaknesses and the Trust has agreed actions to strengthen these arrangements.

Use of resources

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

- 9 The Audit Commission has published Key Lines of Enquiry (KLOEs) which auditors use in reaching scored ALE judgementsⁱ. The KLOEs provide consistent criteria for assessing and measuring the effectiveness and efficiency of a Trust's arrangements to deliver value for money.
- 10 Using this methodology, I have made a judgement for each KLOE using the Audit Commission's current four-point scale from 1 to 4, with 4 being the highest level. Level 1 represents a failure to meet minimum requirements.
- 11 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.
- 12 Table 1 shows the Trust's ALE scores for the five key areas. I have reported my detailed findings in a separate report to the Trust.

Table 1 ALE scores

Key area	Scored judgement
Financial reporting	1
Financial management	3
Financial standing	3
Internal control	3
Value for money	3

ⁱ 'ALE for Trusts' guidance available on the Audit Commission website

VFM conclusion

- 13 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission.
- 14 I issued an unqualified conclusion stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Approach to local value for money work from 2010/11

- 15 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.
- 16 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:
 - securing financial resilience; and
 - prioritising resources within tighter budgets.
- 17 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Trust in my annual report to those charged with governance and in my annual audit letter.

Additional Services

In 2009/10, I have provided additional services in respect of IFRS restatement exercise.

IFRS restatement exercise

- 18** 2009/10 was the first year that the Trust had to fully adopt the International Financial Reporting Standards (IFRS).
- 19** During the year I carried out an audit of the 2008/09 balances as restated under IFRS. This work was carried out to ensure that the 2008/09 figures, stated as comparatives in the 2009/10 accounts, were IFRS compliant. I was able to provide assurance to the Trust Board that the figures were materially correct, in advance of the required submission.
- 20** The Trust submitted their restated 2008/09 figures to the Department of Health by the stated deadline of 30 October 2009.

Future developments

- 21 The Government has made clear its priority to tackle the UK's deficit. The Government has announced details of how the next Spending Review will be conducted. Due to conclude in the autumn, the Spending Review will set spending limits for every government department for the period 2011/12 to 2014/15.
- 22 The Government has also stated that it will guarantee that health spending will increase in real terms in each year of the Parliament. However, the pressure on activity levels remain, and the Trust will continue to face significant demands upon its services, especially as Commissioners seek to achieve efficiency savings. This will continue to be a significant challenge to the Trust, as it strives to match clinical excellence with financial delivery.
- 23 The Trust has consistently met its financial targets but the operating environment in the forthcoming years will present a sustained significant challenge to Trust Board, and I know that the Trust is already starting to move to address these challenges.
- 24 2010/11 represents a year of opportunity for Bedford Hospital too, as the work supporting its application to become a foundation trust moves towards its conclusion.
- 25 As the Trust's appointed auditor, I will continue to reflect on the Trust's response to these external challenges and I look forward to supporting Bedford Hospital as the new opportunities and freedoms of becoming a foundation trust present themselves.

Closing remarks

- 26 I will discuss and agreed this letter with the Interim Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 21 September 2010 and will provide copies to all board members.
- 27 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.

Report	Date issued
Audit Plan	January 2010
Annual Governance Reports	June 2010

- 28 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.

Paul King
Engagement Lead
September 2010