

# Annual Audit Letter

Bedford Hospital NHS Trust

Audit 2007/08

October 2008



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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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# Summary

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### Key messages

- 1 2007/08 has been a challenging year for the Trust particularly in the light of the invitation to re-enter the process for foundation trust status which had previously been suspended due to the Trust's deficit position. The Trust hopes to achieve foundation trust status by 1 April 2009 but this will require it to continue to exercise tight control over its financial position as well as managing other targets, particularly for infection control.
- 2 Our work plan for 2007/08 was revised to take into account the changes to the Trust's risks and priorities as a result of the foundation trust application and we have therefore undertaken work with Board members on both a mock Board to Board exercise and also governance workshops.
- 3 We have delivered work locally on the benchmarking of information both on costs and other indicators such as length of stay and admission rates. This has highlighted where the Trust appears to be an outlier and where further work may be required by management. Feedback has taken place to the Executive team on our findings.
- 4 Information technology (IT) is an area where management have recognised that there have been risks. We reported last year on our follow up of previous work on IT performance management and we have reported this year on IT service management. Our report identified some good practice but also that there was much to do in order to meet the requirements of the ITIL framework, the best practice framework from the Office of Government and Commerce. Given that IT development has taken place in departments in the past rather than being controlled/supported from the centre this has resulted in systems that are incompatible/poorly supported. This represents a risk to the Trust. Our work represents a baseline against which the Trust can monitor progress. There is a completed action plan and the Trust is seeking accreditation to ISO20000 level against the ITIL framework by November 2009.
- 5 Clear progress has been made against criteria covered by the Auditor's Local Evaluation and I am pleased to be able to report improvements in scores for financial reporting and financial standing. We recognise the work that has been ongoing on the Trust's integrated business plan and the five year financial model which is incorporated into the plan.
- 6 Our recommendations are contained within the body of the Letter however in summary these are:
  - Ensure that the recommendations set out in the IT service management report are implemented.
  - Consider what further work, if any, needs to be undertaken in respect of the data from the benchmarking review.

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# Purpose, responsibilities and scope

- 7** This Annual Audit Letter (letter) summarises the key issues arising from our work carried out during the year. I have addressed this letter to the directors of the Trust as it is the responsibility of the Trust to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Trust in meeting its responsibilities.
- 8** The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Trust is planning to publish on its website.
- 9** I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 10** As your appointed auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I 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.
- 11** Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health Check.
- 12** This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that I consider the Trust should be addressing. I have listed the reports issued to the Trust relating to the 2007/08 audit at the end of this letter.

# Audit of the accounts

- 13** I issued an unqualified opinion on the Trust's accounts on 20 June 2008, before the deadline set by the Department of Health for NHS bodies to submit audited accounts. In my opinion the accounts give a true and fair view of the Trust's financial affairs and of its income and expenditure for the year.
- 14** Before giving my opinion I reported to those charged with governance, in this case the Audit Committee on the issues arising from the 2007/08 audit. I issued this report on 19 June and only the most significant issues arising are repeated in this letter.

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## Accounting issues

- 15** There was one unadjusted non trivial error found during our audit. This was in respect of the downward valuation of the chemical pathology laboratory building. The reduction in value had been set against the revaluation reserve. In our view this was an impairment and as such should have been charged instead to the income and expenditure account.
- 16** All other matters identified during the audit were amended for by management and none were material in nature. The Trust continues to produce good working papers and this was reflected in the Auditor's Local Evaluation (ALE) assessment. We have highlighted in our final accounts memorandum that progress on the audit of fixed assets and payroll was affected by pressures on the Financial Controller's availability. From this viewpoint we have recommended to management that the following should be undertaken earlier in the closedown process:
- confirmation from asset holders that they have the fixed assets allocated to them on the fixed asset register, and
  - the reconciliation of the payroll costs in the accounts to the figures on the payroll system.
- 17** Payroll is a significant element of the Trust's total costs and for 2007/08 the payroll function had transferred to University Hospitals Birmingham NHS Foundation Trust. As Internal Audit work was only available for the systems at the new provider in 2007/08, and Bedford Hospital had not been included specifically in the testing undertaken by the Internal Audit team, we were heavily reliant on undertaking predictive analytical review and reviewing the reconciliation of the payroll costs referred to above. We were able to obtain the necessary assurance from these but this highlights the importance of having the necessary information available early in the audit.
- 18** We undertook a review of the Trust's internal auditors, Bentley Jennison, and reported to the Audit Committee in September 2008 that there is overall compliance with the NHS Standards for Internal Audit. We have therefore been able to place reliance on their work.

# Trust's use of resources

- 19** I am required to conclude on whether 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.
- 20** I am 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 themes. This is known as the Auditor's Local Evaluation (ALE). The Audit Commission provides the scores to the Healthcare Commission (HC) to use as part of its Annual Health Check.

## Value for Money conclusion

- 21** I concluded that the Trust had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

## Auditor's Local Evaluation judgement (including financial standing)

- 22** I assessed the Trust's arrangements in five themes. I scored each theme from 1 to 4 (1= inadequate and below minimum standards, 2 = adequate, 3 = performing well and 4 = performing strongly). A detailed report drawing on comparative information is in the course of preparation.

**Table 1 ALE scores**

Theme	Assessment
Financial reporting	3 out of 4
Financial management	2 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** The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

## Trust's use of resources

### Financial management

- 24** This shows as level 2 and as such had an impact upon the overall score as in order to achieve a level 3 overall, as the Trust has to have a level 3 on financial management, financial standing and value for money.
- 25** The Trust had also achieved a level 2 overall in the prior year for financial management, however one of the elements had improved year on year see Table 2 below.

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**Table 2 Financial management**

#### Improvements in score

Theme scores	2007/08	2006/07
The organisation's medium-term financial strategy/plan, budgets and capital programme are soundly based and designed to deliver its strategic priorities	2	1
The organisation manages performance against budgets	3	3
The organisation manages its asset base	2	2

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#### ALE

- 26** The improvement in the score for the medium term financial strategy reflects the introduction of a five year integrated business plan and financial model which were Board approved and upon which there had been consultation with key stakeholders. However, at the time of our assessment, the strategy was being re-worked and the foundation trust application had been delayed pending this. We felt that whilst the Trust had reached level 2 the strategy was not yet fully embedded and that therefore a level 3 score was not appropriate.

### Financial reporting

- 27** This score has increased reflecting the fact that there was only one unadjusted non trivial item in the annual governance report.

### Financial standing

- 28** This score has also increased to reflect that the Trust has had formal notification from the Strategic Health Authority regarding its break even duty with this being reset from the start of 2006/07. As all the financial targets were met in 2006/07 and 2007/08 the Trust achieved a level 3.

**29** The Board report on the August financial performance shows the Trust in surplus but £200,000 below the planned level. Risks were also reported regarding the over performance on new to follow up appointments where the Trust may be exposed to financial penalties from the primary care trusts. The Board is continuing to monitor the position and the Finance Committee is leading on this.

### Value for money

**30** The overall score has remained the same at level 3 although there was an improvement against the key line of enquiry concerning whether the Trust has put in place proper arrangements for securing strategic and operational objectives. This increased to a level 3 from 2 reflecting the introduction of the integrated business plan.

### Specific risk-based work

**31** I carried out specific pieces of work on the following:

- a risk based piece of work on IT service management following our follow up on the IT performance management report which was reported in my previous letter to you;
- updated benchmarking review;
- review of integrated business plan, and
- governance workshops.

### IT service management

**32** Our conclusion was that the Trust was not yet meeting the minimum requirements of the ITIL framework (the best practice framework from the Office of Government and Commerce). Although there were elements of performance that do meet the standards there were also some major gaps. Key findings at the time of the review were that:

- users did not receive an acceptable level of support. Whilst most users rated the IT staff highly there was a view that IT is under resourced;
- there were no processes for obtaining user feedback and there was little relevant and useful information on service levels;
- because of the weaknesses in IT service management there was no framework for IT performance management;
- much IT development was not controlled or co-ordinated. This has led to the introduction of incompatible systems often with inadequate support. This exposes the Trust to risks should there be a system loss, and
- there was some under resourcing of the IT infrastructure and also a need for a comprehensive continuity plan.

**33** The ITIL framework is an exacting one and it is not unusual for initial assessments to fall well short where organisations are reviewing themselves against it. We did find areas of good practice but clearly there is much for the Trust to address. We have received a response to the action plan and the report was presented to the Audit Committee in May 2008.

### Recommendation

- R1** Ensure that the recommendations set out in the IT service management report are implemented.

### Updated benchmarking review

- 34** We had undertaken an initial review against the reference costs data for 2005/06 which was presented to the Executive Team in January 2007. We included time in our 2007/08 plan to revisit the Trust's position against the data for 2006/07, for reference costs and HES (hospital episodes statistics). A presentation was made to the Executive Team in August 2008 and a report was submitted to the Audit Committee in September 2008. The presentation and the report highlight those areas where the Trust is an outlier and where management should seek to understand the reasons for this and investigate whether action is required.

### Recommendation

- R2** Consider what further work, if any, needs to be undertaken in respect of the data from the benchmarking review.

### Review of integrated business plan

- 35** We had included some time in our 2007/08 audit plan for a review of operating theatres. However in the light of the invitation to the Trust to submit an application for foundation trust status I met with the Chairman, Chief Executive and Director of Finance in summer 2007 to consider whether the risks included in the audit plan needed to be revisited. It was concluded that a brief review of the Trust's integrated business plan together with a mock Board to Board meeting to challenge the Board on the plan would be useful preparation for the Monitor process. Given the significant investment of senior staff time in any application for foundation trust status this was considered to be a higher priority and risk than the planned work on operating theatres and accordingly a substitution was made.
- 36** The mock Board to Board meeting took place on 16 January 2008 and was led by the Audit Commission's Central Region Head of Health. Feedback was given on the same day and by way of feedback of notes from the meeting. The work also helped to inform our ALE assessment.

### Governance workshops

- 37** We have also undertaken two workshops with Board members on governance as this had been identified as an area of concern, particularly in the context of managing risk and the respective responsibilities of the executive and non executive directors. In particular it was felt that it would be helpful to explore the linkages for those non executive directors who sit on the Audit Committee given that this is a key forum for ensuring that risk management arrangements are robust.

### National Fraud Initiative

- 38** 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.
- 39** The referrals from the most recent exercise were released to participating bodies in January 2007. The investigations have been completed and there were no referrals required to the Trust's Local Counter Fraud Specialist.

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# Closing remarks

- 40** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 21 November 2008 and will provide copies to all Board members.
- 41** 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.

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**Table 3     Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit plan	June 2007
IT service management	May 2008
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for money conclusion	June 2008
Final accounts memorandum	August 2008
Improvement investigation (benchmarking)	September 2008
Auditor's local evaluation	October 2008
Annual audit letter	October 2008

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- 42** 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  
District Auditor  
October 2008

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# 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, covering the £180 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.

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