

Annual Audit Letter

Hereford Hospitals NHS Trust

Audit 2007/08

September 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 report

Key messages

- 1 This Annual Audit Letter summarises the key issues arising from my 2007/08 audit. The Trust continues to focus on achieving Foundation Trust status, but has extended the timetable for gaining Foundation Trust status in response to an external review of its preparations in December 2007 and a health economy wide review of healthcare provision, which is due to report in September 2008.
- 2 During 2007/08 the new Board has focused on developing the Trust's performance and strategic frameworks as well as tackling significant operational issues. These included developing arrangements for infection control and managing the consequences of the recall of pathology tests. In January 2008 the Trust received an unannounced infection control inspection from the Healthcare Commission which highlighted the need for urgent action in some areas.
- 3 The Trust's financial performance showed improvement in 2007/08, with the previous reliance on non-recurrent measures being much reduced. The initial forecast surplus was revised downward due to the additional costs incurred in relation to the Histopathology investigation. The under delivery of cost improvements in the first half of the year led to an external review of cost improvement management and revised arrangements for managing the cost improvements were implemented in the second half of the year. The delivery of financial targets and cost improvements remains a significant challenge for the Trust.
- 4 The Trust delivered sufficient surplus to enable repayment of the second annual instalment of its working capital loan and improvements were made in debt recovery. However, issues reported in my 2006/07 audit letter relating to disputes with Welsh Commissioners have still not been fully resolved and the Trust has carried out activity for Welsh Commissioners for which it has not been fully paid. I have re-emphasised in this letter that the Board needs to take action to resolve this issue.
- 5 The financial position for 2008/09 is proving to be challenging. Key issues are unidentified cost improvements which are required to achieve the financial target, and unanticipated fluctuations in activity and cost adversely affecting the in year financial position. There is an ongoing need for the Trust to make further improvements in its financial management arrangements to be able to respond effectively to these volatile areas.
- 6 I concluded that the Trust had proper arrangements in place in 2007/08 to secure economy, efficiency and effectiveness in the use of resources, except for the management of the Trust's asset base where there was an absence of an approved estates strategy until 31 March 2008. This is the second year that I have qualified my Value for Money Conclusion due to this omission, although I recognise that the strategy is now in place.

- 7 The Trust has shown some improvement in its Auditors Local Evaluation (ALE), but this has not been sufficient to increase the overall score. I have provided detailed feedback to the Director of Finance and Information and a summary report.
- 8 In response to the risks identified in my audit plan reviews were completed on Patient Administration System (PAS) implementation and estates management:
- PAS implementation - In October 2006 the Trust's new Patient Administration System was implemented. Effective project management of system implementation is fundamental to user confidence in a key information resource. Unfortunately there were significant problems with the PAS implementation which have had an adverse impact on users. The Board needs to ensure that the learning from this project implementation is transferred to the next phase of the Trust's National Programme for IT project.
 - Estates management - the Board has now approved the estates strategy. It is clearly important that the management of estates includes implementation plans to support key areas, such as infection control, 18 week referral to treatment and long term capacity requirements. Projections of future needs and activity levels should be consistent with those of the PCT and the Board needs to demonstrate effective stakeholder engagement in shaping estates strategy.
- 9 The results of the Payments by Results Data Assurance audit were positive. The sample of 300 cases checked indicated that coded was generally of a high standard, except for cardiology where there was a misinterpretation of classifications.

Recommendations

Recommendations	
R1	The Board needs to ensure that the disputes with Powys LHB are settled as a matter of priority. SLAs with Powys LHB need to be supported by a clear agreement of the basis of charging and the Board needs to ensure that adequate processes are in place to comply with the Commissioner's referral requirements.
R2	The Board should monitor progress with the implementation of the current and revised ALE action plan to ensure that improvements to the overall ALE rating are achieved.
R3	The Board should assure itself that sufficient action is being taken by both the Trust and the Health Informatics Service (HIS) to ensure that the management of future NPfIT implementations takes in to account the lessons from PAS implementation.
R4	The Board should ensure that the estates strategy is supported by an agreed performance management framework and stakeholder consultation.

Purpose, responsibilities and scope

- 10 I have addressed this letter to the directors and members 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.
- 11 This 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. In addition the Trust is planning to publish this letter on its website.
- 12 As the Trust's 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.
- 13 The Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health check.
- 14 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that I consider the Trust Board 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

- 15** I issued an unqualified opinion on the Trust's accounts on 19 June 2008. 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.
- 16** 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 16 June 2008.

Audit opinion on the financial statements

- 17** The most significant issues arising from our audit were:
- the elimination from fixed assets of £2.82 million relating to refurbishment donations on assets transferred to the PFI provider;
 - debt with Welsh Health Bodies of £466,000 that was net of a Credit Note Provision of £1.28 million highlighting the under recovery of income from Welsh Commissioners; and
 - inclusion of a prior period adjustment for partially completed spells of £441,000 contrary to Department of Health guidance issued late in the accounts production process.
- 18** In my Governance Report I stated my concern that the Trust continues to have a high level of Credit Note Provision against its debt with Powys LHB and recommended that the agreement of debt was settled urgently. The Credit Note Provision indicates that the Trust continues to undertake work for which it is not receiving full payment.

Accounting performance

- 19** Production of complete, accurate and timely accounts is an important part of the Trust's financial stewardship responsibilities. The Trust again met the deadline for accounts submission, delivering the accounts for audit on 1 May 2008. These were complete and contained few errors.
- 20** The information supporting the accounts was generally of a good standard. I noted that the payroll reconciliation procedures had improved and recommended that ledger to payroll reconciliations are carried out on a monthly basis.

Summary financial statements

- 21** I also reviewed the Trust's 2007/08 Annual Report, which included the summary financial statements. The review process identified some content and presentational issues where I requested amendments to meet the requirements set out in the NHS Trust Manual for Accounts. The necessary amendments were made prior to the publication of the annual report.

Trust's use of resources

- 22** 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.
- 23** 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 areas. 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

- 24** I concluded that the Trust had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources except that it did not put in place arrangements for the management of its asset base. This was due in particular the absence of an agreed estates strategy until the 31 March 2008.

Auditor's local evaluation judgement

- 25** I assessed the Trust's arrangements in five areas. I scored each area from 1 to 4 (1= inadequate and below minimum standards, 2 = adequate, 3 = performing well and 4 = performing strongly). I will issue a detailed report supporting my assessment and highlighting areas for improvement to the Trust in October 2008.
- 26** The work to support the evaluation was carried out in two parts; financial management, internal control and value for money was assessed prior to the production of the accounts and financial reporting and financial standing after. Provisional scores for financial reporting and financial standing are subject to our internal moderation.

Table 1 **ALE scores**

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

- 27** The key issues arising from the audit, as reflected in the above judgements where appropriate, have been discussed in detail with the Director of Finance and Information. I noted improvements in a number of areas, but these were not sufficient to improve the overall scores except for financial standing.
- 28** My key findings are as follows.
- Financial reporting; as noted the accounts were presented for audit by the agreed deadline and supporting working papers were available. The financial accounting and reporting arrangements were assessed as adequate due to the issues identified by our audit. The promotion of external accountability was similarly assessed as adequate due to the absence of evidence of stakeholder consultation in developing the annual report.
 - Financial Management; the Trust demonstrated good arrangements to manage performance against budget and achieved level 3 for this aspect of its financial management. The integration of the medium term financial plan with the overall strategy was assessed as adequate due to the restatement of the Integrated Business Plan in February 2008. Arrangements to manage the asset base were not adequate due to the absence of an estates strategy.
 - Financial standing; the level 4 requirements were achieved, because the Trust has delivered its financial targets for the last three years and has forward projections of both its income and expenditure and cash position.
 - Internal Control; the Trust has continued to improve and embed its risk management arrangements, but the absence of demonstrable training limited the score to level 2. Systems of internal control were adequate, but arrangements to ensure compliance with law and regulations, review audit committee effectiveness and track progress with recommendations were not sufficient for level 3. Arrangements to ensure probity and propriety in business conduct were adequate but would be improved by action on awareness raising across the Trust on business standards, declarations of interest and whistleblowing.
 - Value for Money; the Trust overhauled its strategic planning framework during the year and this impacted on a number of areas. This has meant that, whilst a new process and set of objectives were put in place in the early stages of the year, they were initially lacking in detail. No evidence was provided to demonstrate that results of patient feedback on services and resulting action plans for improvement were reported to the Board. Although the Trust had recently set up a framework for consultation with a wide range of users, including 'hard to reach' groups, there was not sufficient evidence of feedback being applied to service design. The Trusts performance monitoring process comprehensively covers its strategic business objectives, but a comprehensive approach to action planning was not demonstrated.
- 29** I highlight the issues that the Trust needs to address to improve its ALE score in a separate report. It is important that a focused and structured approach to ALE improvements is demonstrated and to support this.

Specific risk-based work

30 I also carried out specific pieces of work as follows.

- PAS system implementation.
- Estates management.

31 The significant issues arising from my work in these areas are summarised in this letter.

PAS Implementation

32 In October 2006 the Herefordshire Health Informatics Service (HIS) implemented the Trust's National Programme for Information Technology replacement Patient Administration System (PAS). This was followed in January 2007 with the implementation of the Community PAS for Herefordshire PCT. Both systems involved significant change management programmes for the health economy, with overall programme management being carried out by a dedicated ICT programme board comprising senior executives from both the Trust and PCT.

33 The overall aim of our health economy wide review was to consider the operational perspective during and after each PAS implementation and ensure that the lessons from this were included in planning for the clinical modules phase.

34 We concluded that the implementation of the two systems was challenging and there were significant failings. These included:

- weaknesses in planning, resulting in avoidable problems;
- difficulties with supplier management, resulting in delays in rectifying issues;
- inadequate stakeholder engagement, resulting in delays and user dissatisfaction; and
- ownership issues, resulting in potential efficiency gains not being realised.

35 These issues are considered in more detail in our report.

36 Since issuing our report we have facilitated an action planning workshop to help the Trust, PCT and HIS implement the learning from PAS implementation to the clinical modules phase of the health economy's National Programme for Information Technology project. The outcomes of this workshop, including the action plan, were reported to the Trust's Audit Committee in August 2008.

Estates management

37 Much of the hospital estate is a new PFI building which became fully operational in the summer of 2002, replacing facilities delivered on three separate sites. There are however, significant difficulties associated with parts of the estate not included in the PFI contract, which have had plans in place for improvement for some time. These include the 'hatted wards' which were due for closure when the new hospital was commissioned. They are high risk for hospital acquired infection and a source of operational inefficiency.

38 This review considered progress against site development plans and the production of an estates strategy which supports the delivery of current strategic objectives.

39 We concluded that:

- the processes in place for developing the estates strategy were focused on how managing the entire estate, both PFI and non-PFI, will assist the Trust in delivering corporate objectives;
- decisions relating to the Cancer Treatment Centre in particular have been made in the absence of an estates strategy and it is therefore not clear how this project will integrate with the broader estates strategy;
- the Trust's leadership arrangements for developing its estates strategy were poor, resulting in a prolonged period without a documented strategic direction for the Trust's estate. Arrangements were clarified following Board level appointments;
- there is a strong working relationship between the Trust's Operations and Business Development Directors and Mercia Healthcare Consultancy, retained to develop the estates strategy;
- in implementing the estates strategy the Trust's leadership needs to identify, agree plans in key areas including Hygiene Code compliance, delivery of the 18-week referral to treatment target for elective activity and Long Term Financial Model (LTFM) capacity requirements;
- a detailed and extensive needs analysis informed the development of the estates strategy. Projections of future needs and activity levels had not been agreed with Herefordshire PCT, and it was therefore uncertain whether the Trust's projections were consistent with broader County-wide expectations; and
- stakeholder consultation and representation arrangements supporting the development of the estates strategy were weak, and required improvement. The Board needs to be able to demonstrate that stakeholder engagement is effective in shaping the estates strategy.

40 The new estates strategy was approved by the Board on 31 March 2008, following a briefing on emergent issues at the February Board. The strategy identifies the shorter term development proposals (2008 to 2010) and the longer term (post 2010) developments that are required to deliver the Integrated Business Plan objectives. It is noted that the financial implications of the strategy need to be incorporated in to the Trust's Long Term Financial Model and that the external environment is volatile which will impact on the evolution of the strategy over the next five years.

41 Our recommendations included two areas where full implementation was not anticipated until March 2009. These were as follows.

- Board approval of the performance management framework for the estates strategy.
- Stakeholder engagement on the estates strategy as part of the wider strategic consultation process.

Payment by Results Data Assurance Framework

- 42** The Payment by Results (PbR) Data Assurance Framework is a rolling programme of work for which the Audit Commission has the lead responsibility for developing, managing, and delivering. The Department of Health has agreed the scope of the work. The core component of the programme in 2007/08 is an independent, external Clinical Coding audit programme at all NHS Acute Trusts, including Foundation Trusts, in England, undertaken by experienced, registered and accredited Clinical Coding Auditors.
- 43** The Clinical Coding audit at the Trust looked at a random sample of 300 FCEs constituting complete spells, covering Trauma and Orthopaedics (100), General Surgery (100), Cardiology (70), and Medicine HRG (30), during the period of April to October 2008.
- 44** It was concluded that:
- except for Cardiology, the coding was found to be of a high standard. The staff are all up to date with training refresher courses and multiple speciality workshops are scheduled for 2008;
 - training issues identified within the Cardiology specialty accounted for the majority of the errors. A misunderstanding of the reports in relation to the classifications had arisen. These miscodings did not impact on the level of tariff income received; and
 - from the sample tested there were two specialties, (Trauma and Orthopaedics and General Surgery) with coding errors impacting on the accuracy of tariff income. These totalled £4,359 overall, 1 per cent of the total sample value.
- 45** Recommendations for improvement were included in an action plan that was agreed with the Trust.

Summary of Recommendations

- 46** I have included at Appendix 2 an annual summary of recommendations. This relates to agreed recommendations that have been posted on the Concordat website. There were two projects that had recommendations due for implementation during the year; the Estate Management review and our 2006/07 Capacity Planning review. The summary provides a brief update on the status of the recommendation.

Closing remarks

Closing remarks

- 47** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present the letter at the Audit Committee and will provide copies to all Board members.
- 48** Further detailed findings, conclusions and recommendations on the areas covered by my audit are included in the reports issued to the Trust during the year.

Table 2 Reports relating to the 2007/08 audit

Report	Date of issue
Audit plan	June 2007
PAS Implementation Review	January 2008
Opinion audit plan	March 2008
Estates Management	April 2008
Report to those charged with governance	June 2008
Opinion on financial statements	June 2008
Value for money conclusion	June 2008
Auditors' Local Evaluation	Planned for October 2008
Annual audit letter	July 2008

- 49** The Trust has taken a positive and constructive approach to the audit, and I wish to thank Trust staff for their support and cooperation during the audit.

Mark Stocks
Engagement Lead
September 2008

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
4	R1 The Board needs to ensure that the disputes with Powys LHB are settled as a matter of priority. SLAs with Powys LHB need to be supported by a clear agreement of the basis of charging and the Board needs to ensure that adequate processes are in place to comply with the Commissioner's referral requirements.	3	Director of Finance	Yes	Every effort is being made to settle all outstanding debts with Powys and to ensure that all future arrangements are covered by written agreements.	October 2008
4	R2 The Board should monitor progress with the implementation of the current and revised ALE action plan to ensure that improvements to the overall ALE rating are achieved.	3	Director of Finance	Yes	The Director of Finance has produced an action plan for improving ALE scores and will report progress to the Board on a quarterly basis.	October 2008 and quarterly from then on.
4	R3 The Board should assure itself that sufficient action is being taken by both the Trust and the Health Informatics Service (HIS) to ensure that the management of future NPfIT implementations takes in to account the lessons from PAS implementation.	3	Director of Finance	Yes	Actioned, as reported in paper to August Audit Committee. Structure in place to ensure good practice is followed in relation to IT implementations.	Done

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
4	R4 The Board should ensure that the estates strategy is supported by an agreed performance management framework and stakeholder consultation.	3	Director of Business Development	Partial	<p>The performance management framework for the capital/estate strategy will follow the pattern for the overall trust strategy, ie each year on a rolling basis specific milestones will be included in the business plan delivery of which is reported to the Board on a quarterly basis.</p> <p>Our plans for the hutted wards, radiotherapy etc will be widely publicized and presented formally to, inter alia, the HOSC and members – there will not be any ‘consultation’ in the sense of testing out plans expecting active involvement of stakeholders in development of a final set of proposals.</p>	

Appendix 2 – Summary of recommendations

2007/08 Estates Management

Recommendation	Link to Relevant Standard	Responsibility	Date	Update on Status
R1 The Board needs to approve a framework for the performance management of the estates strategy aims and objectives, including performance indicators, reporting and monitoring arrangements.	C7a, C7b	Director of Business Development	March 2009	
R2 The estates strategy needs to document how the significant estates changes required for the Cancer Treatment Centre will support the delivery of estates and corporate aims. These changes need to be supported by documented and agreed implementation plans.	C7a, C7b	Director of Business Development	March 2008	Implemented. Incorporated in summary estate strategy and FBC.

Appendix 2 – Summary of recommendations

Recommendation	Link to Relevant Standard	Responsibility	Date	Update on Status
<p>R3 The Board needs assurance that the estates leadership are shaping the estates strategy to include:</p> <ul style="list-style-type: none"> planning frameworks for ensuring full compliance with the Hygiene Code, particularly with respect to the Huttred Wards; demonstrating how the management of the Trust's estates will support the delivery of the 18 week referral to treatment target; and compatibility of estates strategy capacity forecasts with the LTFM assumptions. 	C7a, C7b	Director of Business Development Director of Nursing and Quality Director of Finance	June 2008	Ongoing. <ul style="list-style-type: none"> The interim upgrade of the huttred wards is in progress. The development of the new ward block is being managed through a project team and a project board both of which include representation from nursing and infection control. The requirements of the Hygiene Code are being 'built in'. Delivery of the 18 week target is an ongoing operational performance target. The bed base review – which is driving the huttred ward re-provision – is geared to ensure delivery of future projected activity and waiting time targets. The LTFM is fed by assessments of future activity.
<p>R4 The Trusts bed modelling process should take account of improvement of access times towards the national target of 18 week RTT by December 2008 as well as optimum occupancy rates.</p>	C7a, C7b	Director of Business Development	June 2008	Implemented
<p>R5 The Trust should ensure that the draft estates strategy is subject to robust two way public and stakeholder consultation process in line with an explicit consultation plan involving all key stakeholders, before finalisation.</p>	C7a, C7b	Director of Business Development	March 2009	

Appendix 2 – Summary of recommendations

2006/07 Capacity Planning Review

Recommendation	Link to Relevant Standard	Responsibility	Date	Update on Status
R1 Issue planning guidance to those involved in developing capacity plans to ensure common understanding of the basis for forecasts and consistency in approach. (This should include an assessment of impact on all trust resources including inpatients, outpatients, beds, theatres, diagnostics and manpower).	C7d	Director of Business Development	December 2007	Implemented
R2 Review progress to remove known bottlenecks (morning discharges, theatre scheduling, nightingale wards and delayed transfers for community hospitals) and introduce targets for regular monitoring.	C7d C20a	Director of Operations	December 2007	In progress - being implemented as part of transformation project.
R3 Develop comprehensive performance reporting showing targets based on commissioning intentions and links to capacity indicators.	C7f	Director of Finance	December 2007	Delayed – being developed as part of the performance management framework. Revised date October 2008.
R4 PCT and Trust senior managers need to develop closer working relationships and agree common and realistic set of future planning assumptions and work towards these. Ensure care groups are clear regarding contractual obligations with commissioners.	C7d	Director of Operations and Director of Finance	December 2007	Not implemented - to be implemented as part of 2009/10 planning process.
R5 Identify those areas in performance reports where there is concern around data accuracy and the plans to address this.	C7f	Director of Operations and Director of Finance	December 2007	Ongoing - being assessed on an ongoing basis.

Appendix 2 – Summary of recommendations

Recommendation	Link to Relevant Standard	Responsibility	Date	Update on Status
R6 Review the opportunities to strengthen integration of the bed management function with wider trust management functions.	C7d	Director of Operations	October 2007	In progress - being implemented as part of Trust restructure.
R7 Ensure approaches designed to ease capacity pressures are agreed and regularly monitored to ensure adherence and delivery of anticipated benefits.	C7d	Director of Operations	December 2007	Ongoing - capacity planning is taking account of the pressures.

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