

Annual Audit Letter

Hereford Hospitals NHS Trust

Audit 2008-2009

October 2009



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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 our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Overview

- 1** During the year the Trust has continued to work on preparations towards Foundation Trust (FT) status but it has now become clear that the Trust's future lies in integrating with the PCT's provider arm rather than continuing to seek FT status on its own. A five year clinical and financial plan for integration is being drawn up and a Transition Board has been established.
- 2** 2008/09 was a difficult financial year in which the Trust achieved partial success in meeting its objectives. Overall it made a surplus of £544K against a plan of £1.1million. It succeeded in delivering 80 per cent of its planned operational cost improvement programme but struggled to manage the costs of increased activity. Demand for the Trust's services in year was greater than forecast before the start of year, there was too little capacity to cope with the activity which resulted in the reopening of a ward and its associated costs. In the last quarter the Trust received unplanned funding of £1.3million from the SHA which enabled it to report a surplus of £544K. The Trust met its working capital loan repayment obligations and as a result was able to achieve all its statutory targets.
- 3** To improve its financial standing and deliver its required surplus of £1.1million the Trust needs to develop its CIP arrangements. The 2009/10 budgeted CIP requirement is £4.5 million of which three quarters is planned to be delivered in the second half of the year. At the end of August 2009 the Trust reported that its delivery of its CIP is just below plan with a forecast for the year end being that only £3.6m of the £4.5million will be achieved, together with continuing to forecast a year end surplus of £1.1million. The Trust is aware of the need to ensure that the CIP projects identified are realistic and quantifiable and to monitor their delivery closely. From August 2009 it has established a Financial Turnaround group to achieve this.
- 4** The Trust has improved its performance across the main operational targets. It has also moved forward in several areas during the year including implementing a management restructure which has introduced Business Units, introducing elements of Service Line reporting and has revisited its risk management arrangements. Some of this work has contributed to improvements in the arrangements for securing value for money which I reviewed in my ALE assessment. Due to financial issues my overall ALE assessment remains at level 2.

Audit Opinion

- 5 In seeking to determine whether the Trusts' accounts were free from material misstatement (material is defined as 1 per cent of operating expenditure). I considered the total impact of the errors and uncertainties identified by our audit testing. I concluded that they were not material.
- 6 I issued an unqualified audit opinion on the accounts on 12 June 2009.

Financial Statements

- 7 The financial statements presented for audit contained some errors and uncertainties. The most significant of these is the Prior Period Adjustment (PPA) of £783K which does not meet the criteria for a PPA and technically should have been charged to the Income and Expenditure account.
- 8 The recoverability of debts from Welsh commissioners remains an area of concern and requires close monitoring.

Use of resources

- 9 My conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources at the Trust was unqualified. This conclusion was supported by my work on the annual Auditor Local Evaluation (ALE).

Audit fees

	Actual £	Proposed £	Variance £
Financial statements and Statement on internal control	66,100	60,600	5,500
Use of Resources, including ALE assessment	67,100	67,100	0
Implementing IFRS: Stage 1 Arrangements Review	10,000	10,000	0
Total audit fees	143,200	137,700	5,500
Non-audit work	-	-	-
Total	143,200	137,700	5,500

Key messages

Actions

- 10 Recommendations are shown within the body of this report and have been agreed with the audited body.
- 11 The Trust should monitor actions undertaken in response to these recommendations and ensure they are followed up as a matter of routine.

Independence

- 12 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Recommendations	
R1	Ensure that my agreed Annual Governance Report recommendations are implemented by the stated deadlines.
R2	Note the key improvement areas from my ALE review and ensure that action plans are in place to address them.
R3	Monitor progress towards full implementation of agreed action plans supporting our reviews of Self Certification arrangements and Service Line management.

Financial Statements and statement on internal control

The Trust's financial statements and statement on internal control are important means by which the Trust accounts for its stewardship of public funds.

Significant issues arising from the audit

- 13 I reported the significant issues arising from my audit to the Audit Committee in my Annual Governance Report. I noted two areas in the financial statements which included identified errors and uncertainties.
 - 14 The first of these was in respect of a prior period adjustment of £783K which the Trust had reported as clearance of its negative revaluation reserve. This did not meet the requirements for a prior period adjustment under the current (UK GAAP) rules. I recommended to the Audit Committee that adjustments were made to the accounts in respect of this item. The Committee declined to make these and I was able to conclude that it did not materially affect the Trust's reported income and expenditure position as it was a technical error relating to prior years and in my view the accounts overall presented a fairer view of the position than if the negative balance was left in the revaluation reserve because it had been posted to the Income and Expenditure reserve where it belonged.
 - 15 The second item was in respect of a net amount of £503K included in other debtors due from Welsh (NHS) bodies. I received only partial confirmation of the sum due from Powys LHB but considered that on balance the Trust had provided sufficiently against this debt in its accounts.
 - 16 I also recommended that the Trust should incorporate records of the changes to its asset related balances in the fixed asset register to ensure the tracing the source of accounting entries.
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Material weaknesses in internal control

- 17 Although I did not identify any material weaknesses in your internal control arrangements I reported in my Annual Governance Report that the Statement on internal control referred to Internal Audit identifying weaknesses in compliance with the Trust's tendering and contracting policies and procedures for the purchase of goods and services and recommended that action is taken to strengthen controls.
 - 18 My recommendation to strengthen controls in the Trust's tendering and contracting policies and procedures for the purchase of goods and services as recommended by Internal Audit was agreed and reported to the Audit Committee.
-

Accounting Practice and financial reporting

19 I considered the qualitative aspects of your financial reporting. As part of my audit I document how information flows through your financial systems and identify the controls over the amounts reported in your accounts. The effective operation of these controls ensures the Trust's funds are adequately monitored and controlled through the various accounting systems and duly reported in the statement of accounts.

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.

ALE judgements

- 20** In forming my scored ALE judgements, I have used the methodology set out in the 'ALE for Trusts' guidance. Judgements have been made for 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 taken into account, 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. The key findings and conclusions for these areas, and the underlying KLOE, are summarised in Appendix 1. A separate report on the findings from the 2008/09 review of ALE was discussed with the Chief Executive and the Director of Finance.
- 23** The scores were published on the 1 October 2009 together with a national report identifying key themes of performance.

Table 1 ALE scores

Key area	Scored judgement
Financial reporting	2
Financial management	2
Financial standing	2
Internal control	2
Value for money	2

- 24** The Trust has maintained its overall score in 2008/09 on an assessment that was more difficult in some areas than previously in order to promote continuous improvement.

Use of resources

- 25 The management and internal reporting of the financial position in year prevented the Trust from progressing in Financial Reporting. The working papers provided for the accounts were considered adequate and could be improved by being more comprehensive. Working papers should be provided to support any areas of uncertainty on which the Trust has formed judgements eg the recoverability of Welsh debt.
- 26 There has been an improvement in the management of the asset base but arrangements remain at the 'minimum requirements' level. A key area for further improvement is to develop these arrangements to manage the Trust's physical assets.
- 27 The achievement of the Trust's financial target was due to the receipt of unplanned funding from the SHA for Welsh tariff income and PFI support. To improve its financial standing and achieve its required surplus of £1.1million the Trust needs to develop its CIP arrangements and deliver the 2009/10 budgeted CIP requirement of £4.5 million.
- 28 Arrangements have begun to be put in place to deliver Service Line reporting and these will have to be implemented and embedded in order to contribute to the Trust achieving its objective of achieving Foundation Trust status.
- 29 Risk management arrangements improved in the year and will need to be further embedded to improve. Overall internal control systems were consistently at minimum requirements.
- 30 The arrangements with the Local Counter Fraud Service have improved and the Trust actively participates in the National Fraud Initiative.
- 31 Our value for money assessment recognised improvements in two areas achieving level 3; in arrangements to ensure that services meet the needs of patients and for engaging with the wider community, and in arrangements for monitoring and reviewing performance, including those to ensure data quality.

Recommendations

- | |
|---|
| R4 Ensure that in-year internal financial reporting provides information on the year to date and reliably forecasts the year-end position giving a clear link between budget, in-year forecasts and year-end position. |
| R5 Implement Board reporting and monitoring against a set of estates key performance indicators. |
| R6 Ensure that the Cost Improvement projects are realistic and quantified and monitor their delivery closely. |
| R7 Ensure that the assurance framework is fully embedded in business processes. |

- 32 An action plan has been agreed to be put in place to address the issues raised as at Appendix 2.

VFM Conclusion

33 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are set out in my Annual Governance Report. I issued an unqualified conclusion stating that the Trust had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Specific risk-based work

34 I carried out specific pieces of work as follows:

- Self certification arrangements.
- Service line management.

35 I have presented separate reports on each of these to the Audit Committee and summarise the key points below.

Self Certification Arrangements

36 The overall aim of this review was to assess whether the Trust has effective processes in place that will support the Board's self certification responsibilities. The project brief was agreed with the Trust's Director of Finance in October 2008 and the field work undertaken between November 2008 and March 2009.

37 For FT's Monitor requires self-certification statements in 11 areas. These requirements are consistent with good governance arrangements in an NHS Trust. We agreed to focus our work in three of the 11 areas. The areas and our overall conclusion on each are summarised in Table 2.

Table 2 Self certification - summary conclusions

Area considered	Summary conclusion
<p>Arrangements to ensure that the Trust is compliant with the risk management and assurance framework requirements that support the Statement of internal control pursuant to the most up to date guidance from HM Treasury.</p>	<p>Trust arrangements are compliant with the most up to date HM Treasury guidance for 2008/09.</p>
<p>Arrangements are in place to ensure that all key risks to compliance with the Authorisation have been identified and addressed.</p>	<p>At the time of the fieldwork there was limited management of corporate risks and these were not sufficiently robust to support self certification. We noted that the Trust had recognised that there were weaknesses around the prioritisation and reporting of risks and the embedding of a process of reporting to the Board.</p> <p>The Trust is already aware of and attempting to mitigate the following major risks:</p> <ul style="list-style-type: none"> • financial sustainability; • effective governance arrangements; and • achievement of representative membership numbers.
<p>The management structure is adequate to deliver the Trust's strategy.</p>	<p>The assurance committee structure is being developed to deliver the Trust's strategy but is not fully in place.</p> <p>Developments are in line with the Compliance framework, such as setting up business units aligned with patient flows to support service line management and improvements to corporate governance and performance management.</p>

38 A suggested action plan was prepared on completion of the work and an update on progress is summarised at Appendix 1.

Service Line Management

39 The objective of this review was to form an overview of the adequacy of the Trust's arrangements for the development of Service Line Management (SLM). The project brief was agreed with the Trust's Director of Finance in December 2008 and the field work was undertaken between December 2008 and March 2009.

40 Monitor has made the development of SLM a requirement for aspirant Foundation Trusts as well as expecting existing FTs to implement SLM or something similar. We carried out an assessment of the progress made by the Trust in addressing the four 'key enabler's as identified by Monitor in its Guide to Implementing Service Line Management. The areas and our overall conclusion on each is summarised in Table 3.

Table 3 Service Line Management - summary conclusions

Area considered	Summary conclusion
<p>Organisation - Does the organisational structure support SLM, by way of defined leadership roles (integrating clinical, operational and financial performance) and are decision rights at each level clearly defined and appropriate.</p>	<p>In October 2008 the Trust put in place a new Business Unit structure replacing the previous Care Group arrangement, which is logical and proportionate.</p> <p>The Trust is making progress to develop a distinct business unit focus as required by Monitor.</p>
<p>Strategic and annual planning - are the Trust's planning processes sufficiently informed to support SLM. For example is there evidence that it understands the nature of the developing market within which it operates now and in the future.</p>	<p>Business Unit financial planning currently looks only one year ahead. This will need to be developed to extend into the medium and long term.</p>
<p>Performance management - are the Trust's performance management arrangements effective and are the consequences of good/poor performance clearly defined. Is performance tracking sufficiently robust and based on the risks applicable to the specific service line.</p>	<p>The Trust has yet to develop key performance indicators which reflect the individual nature of each Business Unit.</p>
<p>Information support - Is the method of providing financial information sufficiently detailed to support costing at a patient level.</p>	<p>The Trust has recruited a SLR accountant to work alongside Business Unit directors and managers and invested in the B-plan/Synergy software system designed to create a data warehouse drawing on the existing hospital systems.</p>

- 41** Overall the review concluded that the Trust has made a good start in implementing Service Line Management and moving towards Service Line Reporting and it is at a relatively early stage of the process.
- 42** We agreed an action plan on completion of the work and an update on progress is summarised at Appendix 1.

Follow Up of Previous Years' work

- 43** We have followed up the recommendations made in previous years and, whilst some recommendations have been superseded, overall satisfactory progress is being made.
- 44** A summary of responses to the recommendations from previous years' work on 2007/08 Estates Management and on 2006/07 Capacity Planning is included at Appendix 3.
- 45** A key area for improvement is estates management which is important to make best use of the Trust's assets and will be reviewed again in our ALE assessment in 2009/10.

Payment by results (PbR)

Under the PbR data quality assurance framework the Audit Commission has carried out an inpatient clinical coding audits, outpatient data quality audits and the continuation of national benchmarking information and analysis at NHS Trusts and NHS Foundation Trusts.

Key Findings

- 46** We have reported on two areas in the year on inpatient and outpatient activity coding.
- 47** Due to the targeted nature of these audits and the small sample of activity audited it is not recommended that these results be extrapolated further than the actual sample audited. They do however provide information that will help both commissioners and providers decide if the controls over the accuracy of their activity data are adequate and highlight areas of concern that they may wish to investigate further.

Inpatient audit

- 48** The inpatient audit found that 7.7 per cent of HRG's were derived incorrectly which was higher than the average of all trusts within the West Midlands SHA of 6.1 per cent. The percentage of HRGs derived incorrectly has increased from 2.3 per cent in 2007/08 to 7.7 per cent in 2008/09. The national average decreased from 9.4% in 2007/08 to 8.1 per cent in 2008/09.
- 49** There are a number of areas where improvements can be made which may reduce coding errors. An action plan was agreed with the Trust and the PCT against which progress will be monitored.

Outpatient audit

- 50** From October 2008 the Commission are undertaking a separate audit of data quality in outpatients visiting all trust covered by PbR over an 18 month period finishing in March 2010.
- 51** The outpatient audit found an error rate of 12 per cent in the accuracy of data captured and a 4.8% net reduction in price charged for the activity.
- 52** There are a number of areas where improvements can be made which may reduce coding errors. An action plan was agreed with the Trust and the PCT against which progress will be monitored.

International Financial Reporting Standards (IFRS)

- 53** The Trust will have to prepare its 2009/10 financial statements in accordance with IFRS. The 2008/09 figures will have to be restated to be IFRS compliant. The Audit Commission has agreed two mandatory pieces of work with the Department of Health to assist in the transition.
- 54** In April 2009 we reviewed the arrangements in place to prepare for the transition and reported our findings to the Director of Finance. Our assessment was that the Trust had adequate arrangements in place in most areas with evidence that the Trust is taking action where arrangements need to be strengthened. The agreed action plan is included within Appendix 1.
- 55** We have recently started to audit the restated 2008/09 accounts in accordance with the guidance issued by the Audit Commission and agreed with the Department of Health. This audit will not be in the same level of detail as the audit which we complete on the annual accounts. However, the audit of the 2009/10 accounts will be in much more detail and will again require us to report errors or changes in the accounts which are above our trivial level.

Comprehensive Area Assessment

Comprehensive Area Assessment (CAA) is a new way of assessing local public services in England. It examines how well councils and other public bodies work together to meet the needs of the people they serve. The first results of these assessments will be available from 10 December 2009.

Comprehensive Area Assessment

- 56** For the first time, local public services will be held collectively to account for their impact on better local outcomes. CAA provides a mechanism to ensure that the needs of the local population are met through agencies working closely together to deliver improved outcomes.
- 57** The area assessment takes the single tier and county council boundary as the starting point and will focus on the prospects for better outcomes (including health outcomes) for the people living in that area. The review will draw on a range of sources of evidence and will carry out additional investigation where analysis highlights this is necessary. This could involve any of the partners.

Emerging Issues

- 58** The CAA Lead has been discussing emerging findings with public sector bodies in Herefordshire. Whilst recognising that this is still work in progress, and judgements have yet to be made, we wanted to share with you the main findings to date with affect the Trust.
- 59** There are currently no issues that are expected to be of major concern. The detailed findings will be reported later in the year and at this stage there is still more evidence to review. Discussions with other inspectorates are also still ongoing.
- 60** People in Herefordshire live longer and healthier lives than many in England; life expectancy is high for men and women.
- 61** Developing partnerships arrangements in the county especially between the Council and the PCT are a particular strength and provide the potential for making efficiencies and improving public services for the population.
- 62** Obesity is a national problem and this is true also in Herefordshire; childhood obesity is a priority in the LAA.

Comprehensive Area Assessment

- 63** Access to NHS dentistry remains amongst the poorest in the West Midlands for children and adults. Most dental services are town based and there is little provision in the rural areas. Children suffer some of the worst dental health in England.
- 64** The number of people killed and seriously injured on Herefordshire's rural roads still remains high.

Closing remarks

- 65** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I presented a draft of this letter at the Audit Committee on 5 October 2009 and will provide copies to all Board members.
- 66** 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.

Table 4

Report	Date issued
Audit plan	June 2008
Opinion Audit plan	January 2009
Review of Self certification arrangements	June 2009
Service Line management	June 2009
Payments by Results Inpatients	May 2009
Payments by Results Outpatients	June 2009
Report to those charged with governance	June 2009
Value for Money conclusion	June 2009
Auditors Local Evaluation	September 2009
Annual Audit letter	September 2009

- 67** 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.

Elizabeth Cave
 District Auditor
 October 2009

Appendix 1 – Annual Summary of Recommendations

Implementing IFRS: Stage 1 Arrangements Review

Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Date
R1 Review the terms of the £1.685m sculpted payment included within Non Current Other assets and consider its classification.	3	Director of Finance	Yes	The Trust will review the accounting treatment of the sculpted payment with its external advisor and will take into consideration any issues raised by the latest DH guidance (issued in April 2009).	
R2 Continue to evaluate the risk that the capital accounting system does not hold data at the significant component level to allow revaluation or impairments to be accounted for correctly in accordance with IAS16 under certain circumstances and consider the need to amend and/or upgrade the system in the light of that risk.	3	Director of Finance	Yes	The risk will be assessed in light of developing guidance. However, although the Trust currently holds assets at building level, any formal valuation that the Trust commissions will be at component level and, thus, the risk is mitigated. Any further developments in asset register software (resulting from either upgrade or replacement) will seek to take this factor into account.	

Appendix 1 – Annual Summary of Recommendations

Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Date
R3 Continue to monitor and action DoH guidance on PFI accounting and financial reporting obtaining specialist advice where necessary including any impact on accounting policies.	3	Director of Finance	Yes	All future DH guidance relating to PFI accounting will continue to be observed, where appropriate. The application of any guidance will be supplemented by external advice (from either outside or inside the NHS) where necessary.	

Self Certification Arrangements

Recommendation	Link to relevant standard	Officer Responsible	Date	Status
R1 The Trust should develop a system for ongoing management of corporate risks to match the system the PSG has for reviewing clinical risks.	C7a, C7b	Nikki	End 2009	There is a process in place already which matches the one for Clinical risks however, this process needs to be fully embedded into the systems and our internal auditors will be supporting us to ensure that the entire risk management system is fully effective.
R2 The Trust should develop a quarterly monitoring review process to assess the effectiveness of the BAF and risk management processes (and their reporting to the Board) on an ongoing basis.	C7a, C7b	Nikki	End Financial Year	In future the BAF will be reviewed monthly by the Executive Directors prior to being discussed at the Board. This happens on a monthly basis. Our internal auditors will be supporting through the Internal audit programme to ensure that the BAF is effective and links to risk management processes on an ongoing basis.

Appendix 1 – Annual Summary of Recommendations

Recommendation	Link to relevant standard	Officer Responsible	Date	Status
<p>R3 The Trust should examine and address:</p> <ul style="list-style-type: none"> Stakeholder interests and identification of dependencies between risks. Risk evaluation particularly for red ratings in the scoring matrix. 	C7a, C7b	Mike Coupe Nikki	Mar 2010	Identification of these issues is being built into business planning round for 2010/11 and reflected in the risk structure that is being developed.
R4 Even though the FT application has been deferred until 2010, the Trust should set up a project lead, project group and project plan for addressing compliance with self certification.	C7a, C7b			Recommendation not accepted. Given the integration agenda, this issue will be addressed as the newly merged organisation develops and implements an OD programme.
R5 The Trust should increase its work to attract membership from the public towards its benchmark of 10,000 members.	C7a, C7b			Recommendation not accepted. The Board has agreed to suspend further active recruitment of members pending outcome of merger negotiations. It will be addressed by the new organisation as it moves to FT status. There is also a need to review the benefits of a joint provider/purchaser membership scheme to support public involvement in healthcare issues.
R6 The Trust should continue to examine examples of good practice in FT structures elsewhere, particularly in similar smaller FTs with a view to selecting the best model of management structure.	C7a, C7b	Mike Coupe	2010/11	Recommendation accepted in so far as the new merged organisation should learn from best practice. Will form part of new organisation's OD programme.

Service Line Management

Recommendation	Link to relevant standard	Officer Responsible	Date	Update on Status
R1 The Trust should consider whether the current plans will be able to demonstrate to Monitor that there is a real business unit focus, with each business unit capable of being a mini Foundation Trust.	C7a, C7b	Director of Finance	September 2009	Once SLR has been fully implemented, it is envisaged that Monitor would accept the business unit focus.
R2 The Trust should review the level of financial expertise available to support the development of SLR/SLM in the future.	C7a, C7b	Director of Finance	September 2009	Assistant DOF (Financial Management), the Head of Management Accounts and the 4 Business Unit Accountants will all become fully conversant with SLR and thus able to support the SLR accountant with its development.
R3 The Trust should review the time allowance currently given to BU Directors to undertake their managerial role, and consider whether this is likely to be adequate in the future.	C7a, C7b	Director of Nursing	October 2009	This will be done as part of the review of current arrangements.
R4 The Trust should continue to develop the training plans for Business Unit staff and ensure that they meet individual training requirements.	C7a, C7b	Director of Nursing	October 2009	Middle Management training and development programme being developed.
R5 The Trust needs to consider the level of autonomy to be granted to each Business Unit and reflect this in its Standing Orders and Standing Financial Instructions.	C7a, C7b	Executive Directors	March 2010	This will be considered as the Business Units develop.

Appendix 1 – Annual Summary of Recommendations

Recommendation	Link to relevant standard	Officer Responsible	Date	Update on Status
R6 The Trust needs to encourage the development of local BU objectives and targets that reflect the key issues for each business unit.	C7a, C7b	Director of Nursing	March 2010	This will be considered - potentially to put in place for 2010/11.
R7 The Trust needs to move to a position where all budgets are fully justified when reliable SLR figures are available.	C7a, C7b	Director of Finance	March 2010	The end result of the implementation of SLR.
R8 The Trust needs to help develop business unit financial plans over the medium to long term, and so drive the long term financial plans of the Trust.	C7a, C7b	Director of Finance	October 2009	Part of the development of the MTFS.
R9 The Trust should ensure that the mechanism of rewards and penalties for Business Units is fair, workable and affordable and takes account of any potential competition between business units.	C7a, C7b	Executive Directors	March 2010	This will be considered as Business Units develop.
R10 The Trust should maintain its links with the SLR system provider, B Plan to ensure that system knowledge is available when considering system developments and their affects on the costing system.	C7a, C7b	Director of Finance	July 2009	The Trust is working closely with B Plan and expects to continue doing so.

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
5	R1 The Board ensures that my agreed Annual Governance Report recommendations are implemented by the stated deadlines.	3	Board Director of Finance; Company Secretary	Yes	The Board agrees that the recommendations will be implemented in line with the deadlines.	dates in action plan
5	R2 The Board notes the key improvement areas from my ALE review and ensures that action plans are in place to address them.	2	Board Director of Finance; Company Secretary	Yes	The Board has noted the key improvements in the ALE review and an action plan is being put in place to ensure that improvements are delivered.	Oct 09
5	R3 The Board monitors progress of the full implementation of agreed action plans supporting our reviews of Self Certification arrangements and Service Line Management.	2	Board Audit Committee	Yes	The Board will monitor progress on the implementation of the action plans via the Audit Committee.	Dec 2009 Mar 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R4 The Board should ensure that the £4.5m CIP projects identified are all realistic and quantifiable and monitor their delivery closely.	3	Board Director of Finance	Yes	The Trust has identified a saving programme totalling £4.5m and has implemented a robust monitoring process for ensuring delivery of CIPs, including a dedicated project manager and a Board level Financial Turnaround Group.	Ongoing
9	R5 Ensure that in-year internal financial reporting provides information on the year to date and reliably forecasts the year end position giving a clear link between budget, in-year forecasts and year-end position.	3	Board Director of Finance	Yes	This has been the approach throughout the year to date.	Monthly from the start of the financial year
9	R6 Implement Board reporting and monitoring against a set of estates key performance indicators.	2	Board	Yes	Appropriate estates KPIs are being identified and considered.	Decision to be made by the end of October 2009
9	R7 Ensure that the Cost improvement projects are realistic and develop arrangements to ensure that they are clearly reported and monitored by the Board.	3	Board	Yes	Significant efforts have been invested in adopting realistic projects and a Financial Turnaround group has been established to monitor progress.	Ongoing
9	R8 Ensure that the assurance framework is fully embedded in business processes.	3	Board	Yes	Significant efforts are being made to ensure that the BAF is embedded and is regularly updated and presented to the Board.	Ongoing

Appendix 3 – 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	Ongoing	The Trust will consider the development and implementation of a framework. Already in place is the following process: delivery of each scheme within the estate strategy is timetabled and fed into the annual business planning round as required. This therefore echoes the wider translation of Trust strategy into annual programmes. Each scheme is also developed and executed in accordance with the capital Investment Manual. Work is ongoing.
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.

Appendix 3 – 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 Hutted 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	<ul style="list-style-type: none"> • Implemented • Infection Control: are represented on all project teams relating to the ward reprovision and other developments. Compliance with the Hygiene Code is therefore hard wired into the outworking of the estate strategy. • 18 weeks: the capacity to deliver and maintain 18 weeks has been factored into the calculation of the future bed base. • LTFM: the capital programme for the next 5 years has recently been reviewed to ensure affordability.
<p>R4 The Trusts bed modelling process should take account of improvement of access times towards the national target of 18 weeks 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	Implemented. Consultation on the estate strategy was incorporated within the autumn 2008 'road shows' for Members and the public held in Hereford, Leominster, Ross, Llandrindod Wells and Ledbury. The strategy has also been shared with other appropriate stakeholders eg fire and planning authorities.

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	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	Developed as part of the performance management framework.
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 Director of Finance	December 2007	PCT and Trust are now working closer together as a result of the work on the integration agenda. Joint planning work is developing in light of the integration and economic downturn.
R5 Identify those areas in performance reports where there is concern around data accuracy and the plans to address this.	C7f	Director of Operations Director of Finance	December 2007	Implemented A data quality report is produced on a monthly basis which reviews the data quality associated with key performance indicators.

Appendix 3 – 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	Implemented as part of the restructure that happened at the end of 2008.
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	Implemented Many measures have been implemented in order to ease capacity pressures including the opening of an extra ward and a reworking of the emergency care pathway.

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