



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

External Audit: Annual Audit Letter 2005-06

Southport and Ormskirk
Hospital NHS Trust

September 2006

AUDIT

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1. Key performance improvement themes
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This report is addressed to the Trust and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, who is the engagement partner to the Trust and the national contact partner for all of KPMG's work with the Audit Commission, on 0161 246 4000, email trevor.rees@kpmg.co.uk. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ or by e mail to complaints@audit-commission.gov.uk. Their telephone number is 020 7166 2349, textphone (minicom) 020 7630 0421.

Purpose of this letter

Purpose of this letter

The purpose of this Annual Audit Letter (the letter) is to summarise the key issues arising from the work that we have carried out during 2005-06 at Southport and Ormskirk Hospital NHS Trust ('the Trust').

Although this letter is addressed to the directors of the Trust, it is also intended to communicate those key issues to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and on the Trust website at www.southportandormskirk.nhs.uk.

Responsibilities of the auditor and the Trust

We have been appointed by the Audit Commission as your independent external auditor. The Audit Commission is the body responsible for supporting auditors to local public bodies in England, including NHS bodies.

The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies which is available from www.audit-commission.gov.uk. This summarises where the responsibilities of auditors begin and end and what is expected from the Trust as the audited body. External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The scope of our work

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*). Under the Code we are required to review and report on:

- the *use of resources* – that is whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources
- the *accounts* – that is the financial statements and the Statement on Internal Control.

This letter summarises the significant issues arising from both these areas of work and highlights the key areas we think you should address to improve performance in Appendix 1. The issues summarised in this letter have previously been reported to you and a list of all reports issued to you in relation to the 2005-06 audit is provided in Appendix 2.

Key issues arising from use of resources work

The main elements of our use of resources work are:

- *Auditor's Local Evaluation (ALE)* - we are required to assess how well NHS bodies manage and use their financial resources by providing scored judgements on your arrangements in five specific areas.
- *Value for money conclusion* – in part based on the ALE assessment above, we are required to issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.
- *Specific risk based work* - we perform specific local reviews based on a risk assessment of issues facing you. In 2005-06 we conducted reviews on Realising the Benefits of Workforce Contracts Reform, Funding Flows and Core Financial Management.
- *Work on behalf of the Healthcare Commission* - we are sometimes asked to perform specific work on behalf of the Healthcare Commission, the body responsible for promoting improvement in quality within the NHS through performance assessment. In 2005-06 this work included Acute Hospitals portfolio phase 6 and a follow up of 2004-05 recommendations.
- *Watching brief work* – as detailed in the Trust's 2005-06 audit plan we identified a number of red and amber risks where we did not plan to complete substantive work but have undertaken watching brief reviews.

The key findings from this work are summarised below.

Element of work	Key findings												
Auditors Local Evaluation	<p>Our assessment of the Trust against the five nationally specified areas resulted in the following scores on a scale of one (inadequate) to four (excellent).</p> <table border="1"> <thead> <tr> <th>Area</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Financial reporting</td> <td>3</td> </tr> <tr> <td>Financial management</td> <td>2</td> </tr> <tr> <td>Financial standing</td> <td>1</td> </tr> <tr> <td>Internal control</td> <td>3</td> </tr> <tr> <td>Value for money</td> <td>3</td> </tr> </tbody> </table> <p>We will discuss the key areas requiring improvement to move up a score with management and issue an action plan for improvement. Following the official confirmation of the ALE score by the Healthcare Commission in October we will report our findings formally to the Audit Committee.</p>	Area	Score	Financial reporting	3	Financial management	2	Financial standing	1	Internal control	3	Value for money	3
Area	Score												
Financial reporting	3												
Financial management	2												
Financial standing	1												
Internal control	3												
Value for money	3												
Value for money conclusion	<p>Although the Trust scored level 3 for the value for money ALE criteria, the overall value for money conclusion is based on an assessment of each Key Line of Enquiry (KLOE) within the ALE process. The conclusion is therefore influenced by the following:</p> <ul style="list-style-type: none"> • Although the overall ALE score for Financial Management was level two, the Trust scored a level one on the KLOE 'the organisation's medium-term financial strategy/plan, budgets and capital programme are soundly based and designed to deliver its strategic priorities'. • Within Financial Standing ALE category, the Trust scored a level one on the KLOE 'the organisation manages its spending within the available resources'. <p>As a result of the two level one scores, we issued an 'unqualified except for' value for money conclusion for the 2005-06 year. This means that overall we were not fully satisfied that you had put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>												
Specific risk based work	<p>We conducted a full review on three local risk areas:</p> <p><i>Realising the Benefits of Workforce Contracts Reform</i></p> <p>The objective of the review was to assess the management of the two workforce contracts initiatives; consultants contract and agenda for change. Our fieldwork has been completed and we are currently agreeing our findings with management. We aim to issue our report to the next Audit Committee.</p> <p><i>New Funding Flows</i></p> <p>The purpose of the review was to assess how successful the Trust has been in handling the risks and rewards associated with new funding flows.</p> <p>We are to report our findings formally to the Audit Committee in September 2006.</p> <p><i>Core Financial Management</i></p> <p>The purpose of the review was to continue to review the Trust's management of its current financial position.</p> <p>We are to report our findings formally to the Audit Committee in September 2006.</p>												

Key issues arising from use of resources work

Element of work	Key findings
Work on behalf of the Healthcare Commission	<p>We completed the Acute Hospital Portfolio benchmarking review concerned with medicines management, admissions procedures and your diagnostic services. These reviews identified issues around diagnostic services, particularly endoscopy and Imaging services and a number of recommendations have been made in our report.</p> <p>We followed up areas for development reported in 2004-05 and in previous years regarding 2004-05 data quality review, NHS plan 2003-04, Acute Hospitals Portfolio Phase 5 issued in 2004-05 and waiting list data review from 2004-05.</p> <p>Overall, we were pleased to note that the majority of recommendations have been addressed in relation to these reports and those still in progress will be followed up during 2006-07.</p> <p>Our findings from both reviews were reported to the Audit Committee in July 2006.</p>
Watching brief	<p>During 2005-06 we have completed a number of watching brief reviews as per the audit plan. We have not identified any significant issues which have not already been reported to the Trust.</p>

Wherever we identified an area to improve performance as a result of this work, we communicated this to the Trust as a performance improvement observation. A summary of the most important performance improvements raised, along with the Trust management's response, has been provided at Appendix 1.

Key issues arising from the audit of the accounts

Opinion

We issued an unqualified opinion on your accounts on 6 July 2006. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded by the Trust during the year.

Before we give our opinion on the accounts, we are required to report to your Audit Committee any significant matters arising from the audit. We did this on 5 July 2006 and the key issues are summarised here.

Accounts production and adjustments to the accounts

We received a complete set of draft accounts by the deadline set by the Department of Health which were supported by good quality working papers, in line with the KPMG prepared by client list.

We identified only minor presentational adjustments required to the accounts which you agreed to amend for.

We identified four potential adjustments required to the accounts which you did not agree to amend for. These were reported to the Audit Committee. These adjustments were not significant enough to have an impact on our opinion on the accounts.

Financial Standing

NHS Trusts are given financial targets every year. Three of these, the performance against revenue, capital and external financing limits, are statutory, which means you must achieve them. The others are administrative, which means you should achieve them. Your performance against the targets in 2005-06 is outlined below.

Target name	What it means	Your performance [✓/x]
In-year breakeven	Keeping expenditure payable for the year within the amount of income received for the year	– You reported a breakeven position in year however this was only achieved through the late receipt of £14.26m of unplanned brokerage.
Cumulative breakeven	As above, over a three year period.	✗ You reported a cumulative deficit of £1.179m.
Capital Resource Limit	Keeping net capital expenditure within a limit set by the Strategic Health Authority	✓ You remained within the CRL of £1.987m by £2,000.
External Financing Limit	Keeping the requirement for cash financing within a limit set by the Strategic Health Authority	✓ You remained within the EFL of £9.19m by £7,000.
Better Payment Practice Code	Paying at least 95% of creditors within 30 days of receiving an invoice from them	✗ You reported paying 80% of non NHS creditors by number and 88% by amount within 30 days. For NHS creditors you reported paying 84% by number and 83% by amount within 30 days.

Appendix 1: Key performance improvement themes

This appendix summarises the main performance improvements that we have identified during the 2005-06 year, along with your response to them. The detail of the performance improvements have been communicated to you during the year.

Performance Improvement Area	Trust Management Response
<p>Financial Reporting</p> <p>The Trust's financial reports tabled at Financial and Performance Committee cover a range of elements. However, these financial reports do not include activity data that is explicitly linked to the financial information within the reports.</p> <p>Under Payment by Results, the Trust's financial flows will be dictated to an increasing degree by levels of activity, and it is therefore important that finance and activity reporting should be integrated.</p> <p>The Trust should incorporate the reporting of activity information within its financial reporting arrangements.</p>	<p>Agreed</p> <p>The recommendations are accepted. A revised reporting structure is being implemented during June and July</p>
<p>Risk Register</p> <p>We have reviewed the Trust's risk register to assess the completeness of identified risks and to gain an understanding of the methodology that the Trust takes in completing the register.</p> <p>Discussion with the officer responsible for maintaining the risk register identified that fraud risks are not included within the register.</p> <p>The Trust should consider whether it would be appropriate to include fraud risks within its risk register to provide assurance that mitigating controls and action plans are in place to minimise the risk faced by the Trust.</p>	<p>Agreed</p> <p>The principles outlined in the recommendations are supported. It is accepted that the risk register should be as comprehensive as possible and the inclusion of potential fraud risk will be researched and actioned.</p>
<p>Invoices Requisitions</p> <p>The Trust should ensure all requisitions are completed on official Trust stationary, contain an authorisation signature and are completed in full before an invoice is raised.</p>	<p>Agreed</p>
<p>IT logical Access Controls</p> <p>The automatic account lockout function within the network security access policy should be enabled to force a permanent lockout after three unsuccessful attempts to gain access, which can then only be reset by an authorised IT system administrator. A formal process should also be established to ensure that user access rights to the network and key applications are reviewed for accuracy and appropriateness on a routine basis. All accounts that are identified as redundant should be disabled and removed if no longer required.</p>	<p>Agreed</p> <p>The recommendation made is noted. The Trust will work towards a more effective communication strategy in respect of IT security.</p>
<p>Bad debt policy</p> <p>We recommend that the Trust considers the introduction of a policy for the provision against aged debtors.</p>	<p>Agreed</p> <p>A proposal for creating a scaled provision for doubtful non-NHS debts will be submitted to Finance Committee.</p>

Appendix 1: Key performance improvement themes (Continued)

Performance Improvement Area	Trust Management Response
<p>Acute Hospitals Portfolio Admissions Management</p> <ul style="list-style-type: none"> • Develop an action plan for Admissions Management which addresses all of the issues identified in the standard reports. • Seek to educate patients as to when they have passed through A&E and been admitted and the time this has taken. • Set an internal target for reducing the number of medical/surgical outliers. • Reduce the average length of stay for MI patients to the levels of the best performing 25% of English trusts. • Monitor all cancellations and set internal targets to drive down the high number of cancellations of elective surgery for non-clinical reasons, particularly on the day of admission. • Reduce length of stays for the six surgical procedures reviewed, as there are cost savings and patient benefits to be realised in these areas. • Monitor the patients admitted the day of surgery without a clinical reason, and take action to ensure that performance in this area does not continue to decline. 	<p>Agreed</p>
<p>Acute Hospitals Portfolio Medicines Management</p> <ul style="list-style-type: none"> • Develop an action plan for Medicines Management which addresses all of the issues identified in the standard reports. • Re-do the Pharmacy Clinical Service Audit again once the changes to working practices for Pharmacists and Technicians have been embedded to ensure that the contributions to patient care have increased. • Undertake the Pharmacy Clinical Service Audit again once the new working practices have been embedded to ensure that actual Pharmacy ward hours have increased and the number of patients receiving comprehensive medication reviews with 24 hours has also increased. • Monitor the number of reviews where compliance or drug issues are being highlighted to see whether clinical or nursing staff are taking action after problems are identified by Pharmacy staff. • Extend the self administration of medication on to General Medical and Surgical wards where possible. • The utilisation of shared care agreements should be increased to ensure continuity in medication and monitoring regimes following patient discharge. The Trust should raise this issue via the area Drugs and Therapeutic Committee to discuss with the PCT how best to increase implementation of agreed guidelines. • Ensure that the utilisation of non-clinical prescribers is monitored to ensure that resources are being used efficiently. • Work with local PCTs to ensure that as many patients as possible benefit from medications recommended for use by NICE by using the resources available as efficiently as possible, although this will be somewhat restricted by the Trust's current financial position. 	<p>Agreed</p>

Appendix 1: Key performance improvement themes (Continued)

Performance Improvement Area	Trust Management Response
<p>Acute Hospitals Portfolio</p> <p>Diagnostics</p> <ul style="list-style-type: none"> • Develop an action plan for Diagnostic Services which addresses all of the issues identified in the standard reports. • Should ensure that patient consent is obtained for an endoscopic procedure. • Review its OOH arrangements for emergency endoscopies and formalise arrangements already in place. • Increase the levels of monitoring of clinical indicators across both sites to help with staff training and help improve the quality of patient treatment. • Put in place a replacement programme for medical and endoscope equipment. • Review its Pathology and Imaging unit costs and identify whether resources for provision of out of hours services on both Trust sites is providing value for money when balanced against clinical requirements. • Set a target for further reducing unused planned endoscopy sessions benchmarked to the best 25% of units nationally. • Should increase the utilisation of Imaging equipment. • Increase the productivity of staff to ensure it is obtaining value for money from its staffing resources and revise the way they currently deployed if necessary to increase this. • Reduce the ratio of Blood units cross matched to units transferred as current levels would suggest there is inappropriate demand for this service and that resources could be more efficiently used elsewhere. • Re-audit the levels of TFT's repeated within four days to ensure that the measures it is putting in place are helping to improve efficiency in this area. 	<p>Agreed</p>
<p>Follow up Report</p> <p>We recommend that there should be one individual in the Trust who is responsible for monitoring the achievement of action plans in external audit reports.</p>	<p>Agreed</p>

Appendix 2: Reports issued in relation to the 2005-06 audit

Report	Date issued
Audit plan	October 2005
Interim report	June 2006
Audit memorandum (to those charged with governance)	July 2006
Core financial management	September 2006
Preparing for new funding flows	September 2006
Workforce contracts	TBC
Acute Hospitals Portfolio (phase 6)	June 2006
ALE	TBC
Annual audit letter	September 2006