



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Annual audit letter 2004/05

Southport & Ormskirk Hospitals NHS Trust

17 October 2005

AUDIT

Contents

1	Executive summary	3
2	Performance management	6
3	Financial aspects of corporate governance	17
4	Audit of the accounts	22

Appendices

A	Summary of performance improvement observations	23
B	Summary of the audit	25
C	Our responsibilities under the Audit Commission's Code of Audit Practice	26

This report is addressed to Southport and Ormskirk Hospital NHS Trust ('the Trust') and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The Audit Commission has issued a document called 'Statement of responsibilities of auditors and audited bodies'. This document summarises where the responsibilities of auditors begin and end and what is expected from the audited organisation. We draw your attention to this document.

External auditors do not act as a substitute for the audited organisation's own responsibility for putting in place proper arrangements to make sure that public business is carried out in line with the law and proper standards and that public money is protected and properly accounted for and used economically, efficiently and effectively. Please read the findings of our annual audit letter in the context of our findings in our other audit work presented to you during 2004/05, as summarised throughout the report. We have not reviewed our findings to check your progress as part of the annual audit letter, but all of our reports include action plans that we have agreed with management and that contain specific timescales in which we will follow up the performance improvements.

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 Appointed Auditor to the Trust and the national contact partner for all of KPMG's work with the Audit Commission on 0161 236 4000, or by email to 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 email to complaints@audit-commission.gov.uk. Their telephone number is 020 7166 2349, textphone (minicom) 020 7630 0421.

Scope and purpose of this letter

This letter reflects our responsibilities under the Audit Commission's *Code of Audit Practice* ('the Code'). This requires us to consider and assess the relevant significant operational and financial risks that apply to Southport and Ormskirk Hospitals NHS Trust ('the Trust') and the arrangements it has put in place to manage these risks. The result is greater emphasis on ensuring that our work is tailored to the circumstances of the Trust and audit effort directed to those areas of greatest risk.

Our Annual Audit Letter therefore focuses on those operational and financial risks that we considered relevant to our responsibilities as updated and amended during the course of our audit. These have been recorded in more detail within *Appendix C*.

1. Executive summary

The Trust has had a very challenging 2004/05. Although the Trust has delivered against the targets set by the Department of Health (DoH), it has had a difficult 12 months due to its escalating financial deficit. The Trust's financial statements for 2004/05 highlighted for the first time that it had generated a deficit of £1.189m. However this deficit was minimised as the Trust was forced to obtain repayable planned support of a further £9.3m. The total overspend for 2004/05 was therefore **£10.489m**.

The Trust had identified that 2004/05 would be a difficult year financially and had set itself a challenging recovery plan as early as January 2004. This was also signed up to by the Trust's two main commissioning Primary Care Trusts (PCTs), West Lancashire PCT (WLPCT) and Southport and Formby PCT (S&F PCT). The recovery plan was initially set to reduce costs and to return the Trust to financial balance by 2006/07. However by July 2004 it became clear that the original plan would not achieve its objectives and the Trust compiled a revised plan for 2004/05. This revised plan did not attempt to achieve financial balance and in effect the Trust established a Cost Improvement Programme (CIP), set as an in-year 4% reduction in expenditure. The CIP target was set at £4.9m. Within this target S&F PCT and WLPCT cumulatively committed to fund the Trust £1.3m, however during 2004/05 their respective funding commitments were subsequently withdrawn. As the PCT contributions had been included in the original plans it was partly due to not receiving this funding that led to the reported £1.189m overspend.

As a result of the Trust's financial position, the Healthcare Commission reduced its overall assessment of the Trust from a two star to a one star Trust.

During 2004/05 the Trust and the local health economy, WLPCT and S&F PCT, have also been subject to a number of high profile external reviews. The reviews were undertaken by the Audit Commission and Teamwork and have ensured that the local health economy's position has been under greater scrutiny than received in prior years.

Initial budgets set for 2005/06 have highlighted a gross deficit of **£19.279m**. In order to address this the Trust has set itself a revised recovery plan. This plan aims to achieve financial balance by 2009/10, however it has only focused on the in year recurrent deficit and has assumed that the 2004/05 accumulative position of £10.56m will not have to be repaid. At the time of writing this report, the Trust had not received confirmation from Cheshire and Merseyside Strategic Health Authority (CM SHA) that the debt will not be repaid and confirmation of this was not anticipated in the foreseeable future. Looking to 2005/06 is considered in more detail on page 4.

In view of the ongoing financial difficulties we have had discussions with both the Trust Board and Management in relation to the possibility of issuing a Public Interest Report on the deteriorating financial position. This still remains a possibility and we are in ongoing discussions with both the Trust and the auditors of the SHA.

Performance management

Our assessment, based on the specific reviews we have carried out, is that the Trust has mechanisms in place to deliver satisfactory standards of performance management. Our work in this area is ongoing with watching briefs maintained in all key risk areas.

Financial aspects of corporate governance

The Board has continued to develop the Assurance Framework during 2004/05 and the Director of Mersey Internal Audit Agency (MIAA) provided his opinion that the Assurance Framework met the requirements of the Statement of Internal Control during 2004/05.

The Trust managed to meet four of its five statutory and administrative targets.

1. Executive summary *(continued)*

Audit of the accounts

An unqualified opinion was issued for the Trust's annual accounts on 8 July 2005. The audit was completed within the deadline set by the DoH and no material adjustments were made. We also issued an unqualified opinion on the accounts of the Trust's Charitable Funds.

Looking forward to 2005-06

Financial position

2005/06 will again provide the Trust with a significant challenge as its financial position continues to deteriorate. As part of its budget setting process the Trust has identified that it has a potential gross deficit of £19.279m. In an attempt to reduce the deficit the 2005/06 recovery plan has a target of £2.3m, thus the Trust has an opening income gap of £16.979m. As a result of this gap the Trust was unable to satisfy its statutory requirement of setting a balanced budget and the Trust has made representation to the SHA to address this failing, however as at the 1 October 2005 a balanced budget had still not been set.

The SHA has indicated that financial support in terms of further repayable brokerage will not be made available, however early indicators are that the Trust will be given a deficit control total, i.e. an agreed amount that it can go into deficit to. Although the Trust had not received formal notification of the deficit control total, it is anticipated that it will be set at approximately £15m. The Trust must therefore manage the difference between its income gap of £16.979m and the deficit control total of £15m, this must be managed on top of the recovery plan target.

The 2005/06 recovery plan set by the Trust has identified 21 cost saving initiatives. The Trust has assessed the likelihood of achieving these initiatives and assessed them as either low, medium or high risk. As a number of the initiatives are considered high risk the Trust must ensure that it monitors all the initiatives closely. If any of the initial proposals do not get agreement from the SHA or do not come to fruition, the Trust must identify further cost saving measures in order to generate the required level of savings.

The management of cash will be a challenge in 2005/06 as the deficit control total is not supported in terms of cash. As a result the Trust is predicting its current cash limit will run out in December 2005. The Trust has calculated that it requires £16m cash support and has approached the SHA for assistance, however at the time of writing this report the SHA had not confirmed that this will be available. The Trust has a temporary borrowing limit of £6m with its bank, which will run out in October 2005, however this is expected to be extended until the year end.

The Trust has considered most options in terms of cash generation i.e. land sales, however it must ensure that it manages its cash as prudently as possible in order to avoid non payment of creditors.

1. Executive summary *(continued)*

Strategic reviews

At the start of 2005/06 CM SHA was chosen as a national pilot to assess all its acute trusts in terms of their 'fit for purpose' for Foundation Trust (FT) status. The review was conducted by McKinseys and the Trust was included in this review. At the time of writing our letter the Trust had not received the final report from the review however it was anticipated that due to its financial position the Trust would not be considered 'fit for purpose' for FT status.

The Trust has also contributed to an ongoing strategic review, conducted by Gill Dolan, Chief Executive of S&F PCT, on the delivery of services within the SHA and local health economy. This review is anticipated to assess how health services should ideally be delivered within the SHA rather than how they currently are delivered. Although the Trust has not received a draft report, early indicators are that it could contain potential reconfiguration proposals.

During July and August 2005 announcements were made by Sir Nigel Crisp and subsequently the SHA for the need for PCT reconfiguration. Although the full impact of the reconfiguration process has not been formally agreed, the earlier indicators are that local PCTs will merge with other PCTs to create much larger bodies both in CM SHA and also Cumbria and Lancashire SHA. As the Trust's commissioning PCTs will undergo structural change there is a potential that the Trust's financial issues may not have the required level of focus.

Due to the impact of the various strategic reviews, 2005/06 will create a number of significant challenges and we will maintain close contact with the Trust to ensure we are aware of issues as they arise.

The rest of this report provides more detailed commentary on these issues and summarises the work we have performed during 2004-05.

2. Performance management

Based on the specific reviews we have carried out this year, our overall assessment is that you have put procedures in place to deliver satisfactory standards of performance management, and are also working to improve.

One of our duties is to assess whether you have set up appropriate performance management arrangements. In part, this means considering whether you use your resources economically, efficiently and effectively. Our overall assessment is based on three work streams, summarised below.

- **Performance management arrangements:** As part of our interim audit we assess your overall arrangements for performance management and monitoring and we use the national risk-assessment tool developed by the Audit Commission. Within our 2004/05 audit plan, we identified the Audit Commission's red risk 'New Funding Flows – Payment by Results' as areas that required a full study. Due to the number of reviews undertaken at the Trust during 2004/05 and into 2005/06 we have agreed with the Trust that this piece of work will be undertaken during 2005/06.
- During 2004/05 we have also conducted detailed watching briefs on the following red risks, these are:
 - Core financial management and recovery plan review (page 7)
 - Workforce contracts (page 9)
 - Information management & governance (page 10)
 - E – Booking (page 10)
- **Mandated reviews:** we performed three reviews:
 - The acute hospitals portfolio Phase 5 (page 11)
 - Waiting list spot check (page 13)
 - Data quality (page 14)
- **Other work:** If we are asked to do so, or if we identify a need for it, as auditors we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. Within our 2004/05 audit plan we identified a number of local risks and have therefore conducted watching brief reviews on them (page 16).

Where appropriate we have presented the details of this work to you within other reports during the year and agreed them with you and the Audit Commission. The following is an overall summary of the status and initial findings of this work and it supports our conclusion above.

2. Performance management *(continued)*

Core financial management

During the year we reviewed the recovery plan set by the Trust for 2004/05, in conjunction with this review we also undertook a watching brief review of the financial management procedures at the Trust.

Recovery plan

We conducted a high level review of the approach by the Trust to setting its recovery plan in conjunction with requirements of the Health Service Circular (HSC) 1999/46. Since its inception in 1999 the Trust has been forced to utilise non recurrent funding to achieve its statutory break even. During this period the Trust has set itself a series of saving initiatives including Cash Releasing Efficiency Schemes (CRES) and two recovery plans.

The requirement for SHA brokerage has increased significantly during the last three years. In 2001/02 the Trust required £2.2m to achieve its statutory break even duty however by 2004/05 the Trust received £9.372m in planned support and still reported a deficit of £1.189m, thus recording an overall deficit of £10.489m. For 2005/06 the overall deficit position has deteriorated to £19.279m.

For 2005/06 the Trust has once again set itself a recovery plan and also sought SHA assistance, however at the time of writing this report a balanced budget had not been set. Further details regarding the 2005/06 financial position are included in page 18.

Financial management

In terms of budget setting the Trust practices strict control over both pay and non pay budgets. Year on year budgets are not increased unless it is deemed unavoidable by Trust Management and the budgets are then only increased when the costs are realised. This strict control ensures the Trust is fully aware of its potential out turn and can act upon any issues as soon as possible.

Income budgets are set based on the appropriate inflationary uplift, which is agreed as part of the Local Delivery Plan process with the Trust's commissioners.

The Trust monitor budgets very closely. Budgets are monitored at two levels:

- at budget holder level; and
- at Board level.

The Trust's Finance Department produce budget statements on a monthly basis and the statements are published via the Trust's intranet. Within the Finance Department, link accountants, responsible for monitoring budgets, consult with budget holders at least monthly. The purpose of the consultation is to identify the reasons for variances against budget. The Finance Department attempts to profile budgets where possible thus variances are accurately identified.

The Trust does not set a tolerance for budget monitoring therefore all variances are investigated. Through the consultation process the Trust are able to predict the year end outturn with a certain degree of accuracy.

The Trust Board, through the Finance and Performance (F&P) Committee, are responsible for monitoring the in year position of the Trust. The F&P Committee receives on a monthly basis a narrative explanation of the Trust's position, including specific detail on pay and non pay variances and a narrative on the recovery plan performance and capital and cash management.

This is accompanied by an income and expenditure report set at Trust level. This report is then further broken to highlight budget variances for income, expenditure and group.

2. Performance management *(continued)*

We reported our findings of the recovery plan and financial management review to the Trust in December 2004. Within our report, we identified five recommendations for which management has agreed responses.

Our headline findings were:

- The Trust should ensure that:
 - All potential cost cutting measures are investigated; including Trust wide measures that impact on a number of Directorates.
 - All cost reduction/income generating activities should be analysed so that the knock on effect on other Directorates is taken into account.
 - Each Directorate should be analysed to identify the percentage reduction that can be achieved. This may highlight that one Directorate has greater opportunity for cost reduction or income generation than another.
- The Trust should ensure that all future recovery plans comply with the requirements of HSC 1999/46.
- The Trust should ensure that the recovery plan has support from all stakeholders and that the support is explicit with the plan.
- All Directorates should be encouraged to think of further proposals on an ongoing basis as it becomes apparent that committed schemes will not be achieved.
- The Trust should review all non pay budgets with a recurring overspend and evaluate whether a zero based budgeting exercise is appropriate.

2. Performance management *(continued)*

Workforce contracts

Our watching brief work looked at a number of key workforce issues that the Trust has contributed significant time and resource to their implementation:

- Agenda for Change (A4C)
- Consultants' contract

The Trust has struggled to progress A4C activities in line with the deadline of having staff assimilated by the initial deadline of the end of September 2005. The initial requirements have been revised and the Trust must now only match its staff by the end of September with assimilation completed by the end of December 2005. The Trust has completed matching for 95% of its staff, however the percentage of staff assimilated at the end of August was only 18.75%. To address the delays in assimilation the Trust has now put in place significantly more resource and has revised its plans for completing the assimilation process. Although the levels of assimilations is likely to increase, the Trust does not anticipate it will achieve the December deadline and plans to assimilate approximately 80% of its staff by the end of the 2005/06 financial year.

Given the low numbers of assimilation, it has not been possible to estimate the total cost incurred in respect of this process. The financial impact of the completed assimilations is an increase in pay costs of approximately £500,000, however due to the varied nature of staff contracts extrapolation of the known cost to identify a projected cost is not appropriate and may lead to inaccurate costings. The Trust has been proactive in its communications around A4C, and has made regular communications to its staff through A4C newsletters and staff briefings.

At the time of writing this report, approximately 70% (59 out of 84) of Trust consultants have signed up to the new consultants' contract, and the Trust expects this number to increase further over the coming months. Executive Directors have met with consultants who have taken up the new contract to agree job plans and to set objectives. In 2004/05, the Trust experienced a first year recurrent effect of around a £1.1m increase in costs as a result of the new contracts. In 2005/06, a further £100,000 costs have been incurred which equates to a £1.2m recurrent cost impact to the Trust, however this is partially offset by an increase in the Trust's annual income allocation of approximately £600,000. The full financial impact will only be realised when all its consultants have decided on whether to sign up to the contract, however for 2005/06 the Trust must address the funding gap of around £600,000.

We did not identify any performance improvement observations from our watching brief work on workforce contracts.

2. Performance management *(continued)*

Information management & governance (IM&G) & E-Booking

During our watching brief work we noted that delays in the implementation of National Programme for IT (NPfIT) and related projects have exposed the Trust to the risks of failure to meet project objectives and increased costs. We noted that there was a lack of clarity between the roles of the local service provider (LSP), Computer Sciences Corporation, and the Trust which potentially increases the risk of inefficiencies in reporting and decision-making and could create a potential gap in expectations. A shortage of IT skills currently exists within the Trust and that increases the risk of additional costs associated with using IT contractors to fill gaps.

We noted a number of issues for the Trust to consider:

- There currently exists duplication of patient demographic data across the Trust's various clinical information systems, this may result in a breach of the Data Protection Act 1998.
- A training needs analysis has not been performed and training is not provided in the use of information systems as part of the staff induction programme, although we noted that the Trust does plan for this to be provided. However there is currently a risk of breach of information security through lack of training and awareness.
- Information management objectives are defined on a reactive basis rather than as a planned process due to the Trust's lack of resources, resulting in an increased risk of failure to achieve project objectives.
- The Trust has not carried out an IT skills/competencies assessment however the Trust recognises its IT skills shortage. Although the Trust are actively trying to recruit staff with the required skills, a potential result of this shortage is the increased costs associated with using IT contractors which may result in failure to implement project on time and to budget.

E Booking

In relation to E Booking we reviewed the Trust's strategy, its responsibilities, contracts, plans and funding and noted there were no issues to report. However in terms of staff support we did identify that the Trust has received support nationally and also from the SHA but has not had any staff support from the LSP. A consequence of no support from the LSP is an increase possibility of additional costs being incurred and potential project failure.

2. Performance management *(continued)*

Mandated review: acute hospitals portfolio Phase 5

The acute hospitals portfolio (AHP) has been running for six years and is coordinated by the Healthcare Commission (the Commission). The AHP is a benchmarking exercise that includes all acute hospitals and some PCTs in England. Topics are selected for review each year by the Commission. Data is collected from each trust and submitted to the Commission for inclusion in a national database, which is then used to generate standard reports for each topic in each trust. As auditors, we are responsible for:

- coordinating the collection of data at the Trust,
- generating and issuing the standard reports and
- working with Directors and Managers in the Trust to interpret the information that appears in the standard report and to develop an action plan for improving performance in the future.

The topics covered in 2004/05 and those planned for 2005/06 are set out in the table below.

2004/05 – work completed	2005/06 – work planned
<ul style="list-style-type: none">• Ward staffing• Accident and Emergency• Day surgery	<ul style="list-style-type: none">• Medicines management• Diagnostic services (pathology and radiology) resources• Acute bed management

The data collected for each topic in 2004/05 allowed us to compare the performance of the Trust with a groups of similar trusts, with the following themes being considered in each area:

- The quality of the patient experience
- The efficiency of the trust in its use of resources
- The capacity to improve performance

As the topics covered in 2004/05 were all included in AHP work in previous years, we were also able to consider the progress made by the Trust since the data was last collected.

Our findings were reported to Management in the '*Acute Hospitals Portfolio – Phase 5*' report issued in 2005. The report highlights those areas where the Trust is performing better than its peers and those where it is below average and identifies the key issues to be addressed going forward. In addition, the Trust agreed to prepare a detailed action plan for each of the topics to address all of the issues identified by the AHP data.

The findings from our work in 2004/05 are summarised overleaf.

2. Performance management *(continued)*

Acute Hospitals Portfolio – 2004/05 topics	
Area of good performance	Key issues to be addressed
<p>Ward staffing</p> <ul style="list-style-type: none"> Levels of drug error rates and needle stick injuries are below average. Staff sickness levels were below average. Measures of the management of staff utilisation and leave showed better than average performance. 	<ul style="list-style-type: none"> The AHP data indicated that ward staffing levels, measured as the number of whole time equivalents per bed, are lower than average across all grades. Staffing levels should be reviewed to ensure that patient care is adequate and safe.
<p>Accident and emergency</p> <ul style="list-style-type: none"> Performance against the four hour target was better than average. Numbers being seen by a doctor or nurse practitioner within an hour of arrival have improved significantly since the A&E data was last collected in 2000. 	<ul style="list-style-type: none"> Re-attendance levels are higher than average. The reasons for this should be investigated and action taken to reduce them. Doctors workloads are higher than average, due to the high level of vacancies. The Trust should address this through the planned reconfiguration of services.
<p>Day surgery</p> <ul style="list-style-type: none"> Day case rates have improved since the data was first collected in 2000. 	<ul style="list-style-type: none"> Day case rates remain much lower than average and action is required to increase rates for most procedures in the Audit Commission's 'basket'. The day surgery unit is under utilised and action is required to move activity into the unit. Levels of unplanned over-night stays are higher than average. Reasons for this should be investigated and action taken to reduce them in order to improve the patient experience.

2. Performance management *(continued)*

Mandated reviews:

Since 2001, the Audit Commission has produced a number of national reports following its data quality reviews. As a result, data quality is now given higher priority and we have seen improvement in many areas. However, recent work by the Audit Commission and other regulators has shown that improvements to the quality of information in the NHS are still needed.

In 2004/05, we undertook two reviews, mandated by the Healthcare Commission, but coordinated by the Audit Commission:

- Waiting list spot check; and
- Data quality.

We results of this work are summarised below.

Waiting list spot check

The spot check considered the accuracy of waiting time information at the Trust. The review considered the effectiveness of the Trust's arrangements for ensuring that data is accurate and valid.

Our work was completed in two stages. In the initial risk assessment stage of the review we concluded that *'the arrangements the Trust has put into place to deliver high quality data entry to support waiting list management and the reporting of waiting lists and waiting times are good'*. However, within this overall judgement of 'good' we identified evidence that the Trust had misreported cancer waiting times. In line with the Audit Commission's spot check methodology, as agreed with the Healthcare Commission, we were therefore required to complete a full spot check review, restricted to the area of cancer waits.

The detailed judgements that supported our work were based on data testing, reviewing documentation and interviewing staff. We looked at data about inpatients, outpatients and urgent cancer referrals. We also considered the wider management arrangements that the Trust had in place to control and manage data quality.

The misreporting of cancer waits was identified in the risk assessment stage of our review. We found that some referral dates had been changed from the date that the patient was seen by the GP to the date the referral was received by the Trust, as GPs had not submitted the referrals to the Trust promptly. We understand that staff did not understand that this practice was inappropriate and the cancer team reported their actions openly. As soon as this error was identified and reported by us to the Trust in December 2004, the controls were implemented to ensure that no further changes were made.

We have provided the Trust and the Healthcare Commission with a detailed report of our findings. This included an action plan that identified the following key issues for you to consider:

- A number of controls over the extraction of data for inclusion in returns to the Department of Health are in place, but these are not always documented. In order to improve the audit trail, the Trust should ensure that evidence of the checks performed is recorded and retained.
- In order to gain assurance on the accuracy of reported data, samples of waiting times reported should be agreed to underlying records, including the Patient Administration System (PAS) and case notes.
- In calculating cancer waiting times for a first appointment, care must be taken to comply with national guidelines relating to patients who are not available to be seen.
- Checks on the accuracy and timeliness of decisions to admit recorded by consultant secretaries in Southport should be made by independent staff.
- Tighter controls should be implemented to improve the audit trail that supports the dates recorded for cancer referrals.

2. Performance management *(continued)*

Data Quality

The data quality work in 2004/05 focussed on the overall management arrangements in place to manage data quality in the Trust, with more detailed reviews of data quality in three areas:

- Accident and emergency (A&E)
- Day surgery
- Ward records

These topics were selected to provide some assurance that the data submitted for the AHP was reliable. The results of this work are summarised in the table below.

Ratings – Excellent, Good, Weak or Poor			
Management arrangements: Good	Accident and emergency : Good	Day surgery: Good	Ward records: Good
<ul style="list-style-type: none"> ● The Trust has reacted to the need for accurate coding as a result of the introduction of Payment by Results. ● We noted that Trust Management are happy with the accuracy of the information received within their disciplines e.g. performance against A&E four hour waiting time target. ● The Trust has recently drafted a data quality policy. ● Through discussion we noted that all staff are aware of the policies and procedures. ● The Trust has developed information systems that provide suitable audit trails to record data changes. 	<ul style="list-style-type: none"> ● Testing identified some errors between the discharge times on A&E cards and those on the Footman-Walker system. ● Guidelines are available to staff and are consistent with NHS data standards. ● Data collected as part of the AHP Phase 5 work and comparisons made with data submitted by the Trust to the DoH suggest that all relevant activity is included in the quarterly monitoring return ● Work undertaken as part of the AHP Phase 5 would indicate there is a clear and robust audit trail for the generation of the quarterly monitoring return. 	<ul style="list-style-type: none"> ● The Trust has a specific policy on recording day surgery information and it is regularly reviewed. ● These guidelines are consistent with NHS data standards. ● We found that the majority of the data on the CDS agreed back to PAS. ● The sample chosen for testing covered all day surgery activity including that undertaken in locations other than day surgery units and no evidence of day surgery not being counted/reported was found. ● There are no regular sample audits that check consistency with Trust policy and NHS data standards. 	<ul style="list-style-type: none"> ● The Trust has a clinical record keeping policy that is reviewed every two years. ● Record keeping is only audited every six months and thus the Trust rely on clinical audit for accuracy purposes, however the Trust should review its records on a sample basis to provide further comfort that case notes are accurate. ● We found that the majority of the data on the CDS agreed back to PAS ● The errors found during testing were around final package of care on discharge plans not being available on case notes to review. ● Most of the case notes reviewed included an initial assessment of patients on admission to the ward, but either no evidence of further review or a gap of more than the recommended seven days was noted.

2. Performance management *(continued)*

As a result of our work we agreed a number of key performance improvements with Trust Managers. In particular, the Trust should:

- Develop a more proactive approach to data quality to compliment its existing reactive approach, engage with staff on an ongoing basis and develop an overarching corporate approach to data quality.
- Check the accuracy of A&E data for activity that is within the four hour target in addition to those cases where there is a breach.
- Develop a Trust wide audit programme to test the quality of both paper and electronic records.
- Review the requirement for A&E cards alongside the electronic Footman-Walker system.
- Consult with its SHA and the DoH and agree on a procedure for recording attendances at Southport who are subsequently advised to attend Ormskirk Paediatric A&E.

We will follow up the actions taken by the Trust in response to the data quality and spot check reviews as part of our 2005/06 audit work.

2. Performance management *(continued)*

Other work:

Within our 2004/05 audit plan we identified a number of local issues for review:

Payroll review

Our 2003/04 final accounts audit identified a lack of reconciliation over the figures transferred from the Payroll system (SPS) to the general ledger (Ross) via data transfer.

The Payroll department use the SPS for their inputting and calculations. The data transfer from SPS to the Ross system occurs both on a weekly and monthly basis, in conjunction with the pay runs. We noted that there are no key controls identified that would completely ensure that the data sent from the SPS system is identical to that received in the load file for Ross (for example a batch file totals check).

The Trust's controls are composite, and appear to have been effective so far. However there is no direct control over the figures before and after the transfer which give assurance over the figures. We noted that it is likely that any large errors in transfer would be identified using the current controls, although this may not occur immediately.

We reviewed the data transfer between the two systems on a sample basis and did not identify any errors.

We have made one recommendation to the Trust within our Interim Report 2004/05.

Partnerships

The Trust provides payroll services to S&F PCT and WLPCT, for which it has signed Service Level Agreements (SLAs) in place. These partnerships will continue until the end of the 2005/06 financial year, however due to the potential reconfiguration of PCTs within the C&M and Cumbria and Lancashire SHAs there is currently uncertainty as to whether the Trust will continue to provide these services in 2006/07. We will continue to monitor the Trust's position in terms of payroll provision.

Delayed discharges from hospital with social services

The issue of people - mainly but not exclusively older people - who are ready to leave hospital but cannot do so because of the lack of suitable support services and facilities has been a long standing problem for social service departments and hospitals. The Community Care (Delayed Discharges) Act 2003 introduced a different way of tackling the problem of delayed discharges or bed blocking through a system of fines for social services departments and payments to hospitals for every day a person has to remain in hospital because of delays in providing suitable support services and facilities.

The Trust monitors levels of delayed discharges on a weekly basis and holds weekly meetings with the Local Authority's Social Services department to determine levels of charges. The level of delayed discharges that the Trust experiences is relatively low, and there are systems in place to ensure that Social Services are aware of discharges at least 24 hours in advance. Teamwork undertook a review of delayed discharges at the Trust earlier in 2004/05, as a result of which the Trust has implemented a number of focus groups around admission avoidance, bed management and discharges to further minimise the levels of delayed discharges. We have not identified any further issues in this area.

Revaluation of the NHS Estate

Within our audit of the financial statements we conducted a review of the Trust's approach to the revaluation of its fixed assets which was undertaken as part of the NHS five yearly exercise conducted by the District Valuer (DV). We did not identify any discrepancies with the information included in the financial statements and the third party evidence provided by the DV.

Review of the modular building sale and leaseback proposal

During 2004/05 we were asked to consider whether the proposed accounting treatment of the Trust's second modular building as a operating lease was appropriate. Following our review we concluded that we were not minded to challenge the treatment as an operating lease.

3. Financial aspects of corporate governance

Our overall assessment is that the Trust has continued to maintain satisfactory standards of control associated with financial aspects of corporate governance. However, the Trust reported a £1.189m financial deficit in 2004/05 and also received planned support of £9.372m. The total overspend for 2004/05 was therefore £10.489m.

As the Trust's external auditors, it is our duty to consider whether you have appropriate arrangements in place to maintain a sound financial position. We first consider the 2004/05 recorded financial out-turn. The Trust needed to meet five key targets, as summarised below.

Target	Achieved	Commentary
Statutory target: Breakeven Performance – To generate a surplus of income over expenditure, taking one year with another.	x	The Trust reported a deficit of £1.189m in 2004/05. Although the Trust failed to achieve break even in 2004/05 it was the first year that this was not achieved and therefore this should be assessed against the Trust's duty to achieve break even over a three year period.
Statutory target: Capital Cost Absorption Duty – To absorb the cost of capital at a rate of 3.5% of average relevant net assets	✓	The Trust paid public dividend capital totalling £4,504,000 which is a return of 3.5% against average net relevant assets.
Statutory target: External Financing Limit (EFL) - To control cash so as not to exceed the financing limit.	✓	The Trust undershot its EFL of £8.510m by £14,000.
Statutory target: Capital Resource Limit (CRL) - The Trust is given a Capital Resource Limit which it is not permitted to overspend	✓	The Trust undershot its CRL of £18.068m by £36,000.
Administrative target: Better Payments Practice Code (BPPC) - To pay 95% of invoices within 30 days of receiving them.	✓	The Trust achieved 95.27% by volume and 97.23% by value paid within 30 days. The Trust therefore achieved the BPPC target by value or volume.

During 2004/05 the Trust met four of its statutory and administrative financial targets. Most significantly the Trust did not achieve its target of breakeven performance.

3. Financial aspects of corporate governance *(continued)*

Future financial forecasts

We have considered the following four key components that will contribute to your financial position in 2005/06 and beyond.

Component	Commentary
Income and expenditure	<p>The Trust has a statutory duty to present a balance budget in advance of the forthcoming financial year. However due to the uncertainty of SHA funding to cover its gross deficit, the Trust presented to its May finance committee a budget booklet that did not balance. The Trust has calculated its gross deficit position at £19.279m. The total deficit is derived from the repayable brokerage of £9.3m, the repayment of the 2004/05 overspend of £1.190m, an underlying deficit of £3.4m and a number of other cost pressures including European Working Time Directive.</p> <p>At the time of writing this report a balance budget had still not been agreed. The Trust has approached the SHA for assistance and the indications are that the Trust will not receive repayable brokerage but a deficit control total will be set, which in effect will allow the Trust to overspend by a set figure. At the time of writing this letter the Trust had still not formally agreed the deficit control total with the SHA, however it was anticipated that it would be set at approximately £15m.</p>
Identified cost improvement plans	<p>The Trust has revised its recovery plan for 2005/06. This plan aims to achieve financial balance by 2009/10, however it has focused only on the in year recurrent deficit and has assumed that the 2004/05 accumulative position of £10.56m will not be repaid. At the time of writing this report the Trust had not received any confirmation from the SHA that it will be granted approval not to repay the brought forward deficit.</p> <p>For 2005/06 the Trust has set its recovery plan target at £2.3m which therefore reduces the overall debt of £19.279m to £16.979m. The recovery plan is based on achieving 21 cost saving initiatives. These initiatives have been graded as high risk, medium risk and low risk based on the potential for their non achievement. As the Trust has a number of high risk proposals it must ensure that it has identifies further potential cost saving initiatives which may be explored if any of its existing proposals do not come to fruition.</p>
Managing year-on-year financial position	<p>The Trust had an overspend in 2004/05 of £1,189,000, however it also received financial support of £9.3m. Under current NHS financial rules both elements are repayable, this has obviously had an impact on the setting of the budget for 2005/06. Indications are that the deficit control limit which the SHA will set with the Trust will be set at £15m and thus the brought forward deficit will be included in this figure. If the deficit control total is set at £15m the Trust must identify further cost saving initiatives to reduce its income gap from £16.979m to £15m.</p>
Capital and cash management	<p>The Trust has a £13.109m capital programme for 2005/06. To achieve the capital programme the Trust has identified that it requires a number of key land sales to generate the required funds. These include the sale and leaseback of the second modular building for £7.366m and land sales at the ODGH site and the SGI site totalling £6.5mm The Trust has also imposed a capital freeze in order to generate a further £3m.</p> <p>The management of cash will be a challenge in 2005/06 as the deficit control total is not supported in terms of cash. As a result the Trust are predicting its current cash limit will run out in December 2005. The Trust has calculated that it requires £16m cash support and has approached the SHA for assistance, however at the time of writing this report the SHA had not confirmed that this will be available. The Trust has a temporary borrowing limit of £6m with its bank, which will run out in October 2005, however this is expected to be extended until the year end.</p> <p>Although it is acknowledged that the Trust has considered most options in terms of cash generation i.e. land sales, it must ensure that it manages its cash as prudently as possible in order to avoid non payment of creditors.</p>

3. Financial aspects of corporate governance *(continued)*

The financial position up to July 2005

We have reviewed the finance reports produced to 31 July 2005, the Trust was reporting a net operating deficit of £6,187,000 against budget. Of this £5,465,000 relates to the gap in the budgets and the balance relates to the recovery plan initiatives not yet coming to fruition and also £258,000 which the Trust has lost through arbitration with a commissioning PCT. The Trust expected the £258,000 funding from the PCT due to over performance in 2004/05.

As at the 31 July 2005 the Trust had generated £703,000 of the £2.3m recovery plan and had further proposals of £275,000 expected to be achieved. It is actively monitoring the remaining balance.

3. Financial aspects of corporate governance *(continued)*

Systems of internal financial controls

To assess the systems of internal financial control, we have considered three aspects of your governance framework.

Statement of internal control	Review of internal audit	Assessment of financial control environment
<p>The system of internal control was in place for the whole of the year to 31 March 2005. For the year ended 31 March 2005 the Director of Internal Audit stated that there was significant assurance that there is a generally sound system of control designed to meet the organisation's objectives based on the Internal Audit review.</p>	<p>As part of our interim audit, we completed our review of your internal audit procedure which is provided by MIAA. We concluded that they did reach the organisational and operational standards set for NHS internal auditors and so we have relied on the work that they did. We will agree a detailed liaison and work programme to cover the 2005/06 period.</p>	<p>We reviewed two aspects of the financial control systems as part of our interim audit:</p> <ul style="list-style-type: none"> • Investing in the control framework • Responding to the business environment. <p>We are pleased to report that we have no specific recommendations in these areas.</p>

The legality of financial transactions

Under the Code of Audit Practice, we must review the arrangements you have in place to identify whether:

- transactions the Trust is involved in that might have a significant financial consequence are in accordance with laws and regulations; and
- contracts that the Trust enters into are legally sound.

We reviewed the board minutes, comments received from the Directors and the Trust's arrangements to check the legality of the transactions you enter into. We have confirmed that the Trust's legal arrangements rely on certain Directors and Senior Managers. These arrangements appear reasonable given the responsibilities of these officers and no matter that require investigation have been brought to our attention.

To discharge our responsibilities under the Code and SAS 120 'Consideration of Law and Regulations' we sought written confirmation from management that they have disclosed all those events of which they are aware which involve possible non-compliance with laws and regulations, together with the actual or contingent consequences that may arise from those events. This was provided in the Trust's letter of representation which was approved by the Board on 6 July 2005.

3. Financial aspects of corporate governance *(continued)*

Standards of financial conduct and preventing and detecting fraud and corruption

As auditors, we are responsible for assessing the arrangements that management have put in place to prevent and detect fraud and corruption. Our role allows us to consider the role of management throughout the year under the following two headings.

- Proactive arrangements: In other words creating or controlling a situation rather than reacting to it.
- Reactive arrangements: In other words reacting to a situation rather than creating or controlling it.

The arrangements that management put in place are recommended by the Directorate of Counter Fraud and Security Services (DCFSS) and the locally nominated Local Counter Fraud Specialists (LCFS). Your internal auditors currently provide your LCFS services. Our review of the overall arrangements in place found that these were satisfactory.

4. Audit of the accounts

We completed the audit work on the accounts to deadline and issued an unqualified audit opinion on 8 July 2005.

An important measure of proper financial control and accountability is the audited accounts being signed off and published by the deadline. We issued an audit opinion on 8 July 2005. We have identified two minor performance improvement observations (PIOs) that were not included within the SAS 610 letter, which was presented to the Trust on the 5 July 2005. The two PIOs are disclosed them in Appendix A. We have summarised below the three key elements of the audit process that we expect you to maintain responsibility for.

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 13 May 2005 which achieved the deadline. This performance reflects well on the professionalism and commitment of the finance staff.
Quality of supporting working papers	As part of our interim audit, we issued a 'Prepared by Client' (PBC) request that set out a number of documents we would need for our final accounts audit. The documentation you provided was to a good standard. The need for detailed working papers will take on greater significance for 2005/06 as our assessment of the Trust's working papers will form part of the Auditors Local Evaluation Reporting Tool (ALERT). As a result we aim to be supportive for the 2005/06 final audit cycle and plan to have a formal discussion in advance of the audit to agree our requirements in more detail.
Response to audit queries	The Trust dealt with most audit queries quickly and efficiently and we feel the responsiveness of staff was particularly good this year. The Trust staff and our audit team worked very closely in order to achieve the prescribed deadline, this was very important as the timing of the audit was booked towards the end of the period available for audit.

The following are other key issues from the Trust accounts process that we want to draw to your attention.

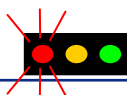
<p style="text-align: center;">Processed audit adjustment</p> <p>As a result of our audit work we identified a number of adjustments that were agreed with the Assistant Director of Finance and made to the accounts prior to submission. None of these impacted on the Trust's outturn position and none were considered significant. The majority related to disclosure issues within the notes to the accounts.</p>	<p style="text-align: center;">Confirmations and formal statements</p> <p>In accordance with SAS 610 any proposed issues that are considered significant but, following discussion with management, would not be amended in the accounts were reported to you in our correspondence dated 5 July 2005.</p> <p>Along with your formal statement to us, we also have to make a formal report to the Audit Committee to confirm whether we as a firm have met with the Audit Commission's requirements for independence. We confirm this at the stage of presenting our audit plans and also when presenting our annual audit letter.</p> <p>We are not aware of any issues to raise in respect of our independence.</p>	<p style="text-align: center;">Debriefing process</p> <p>We are always trying to improve the way we work with you.</p> <p>In order to achieve the challenging future accounts deadline, we suggest that you could take the following key actions:</p> <ul style="list-style-type: none"> • Circulate our PBC list in advance of our accounts audit and request clarification of any requests as appropriate • Agree realistic dates for the receipt of working papers from the Trust
--	--	---

Appendix A: Summary of performance improvements

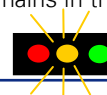
This appendix summarises the performance improvements that we have identified while preparing this annual audit letter. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take. We will follow up the performance improvements as part of our 2005/06 annual audit letter.

Priority rating for performance improvement observations raised

Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.



Number	Risk	Issue	Management response	Officer and due date
Charitable Fund Annual Report				
1	● Three	<p>The Statement of Recommended Practice (SORP) 2000 'Accounting and Reporting by Charities' states that the legal and administrative information provided in the Trustees' Annual Report should include an indication of the nature of the governing document (e.g. trust deed; memorandum and articles of association; Charity Commission Scheme; Royal Charter; etc).</p> <p>Our review of the Annual Report for the Trust's Charitable Fund found that this information has not been disclosed.</p> <p>The Trust should review all relevant disclosures required by the revised SORP and ensure they are disclosed within the 2005/06 Charitable Fund Annual Report.</p>	<p>The Trust will ensure that, for the 2005/06 Charitable Funds annual report, all relevant disclosures required by the revised SORP will be disclosed.</p>	<p>David Williams, March 2006</p>

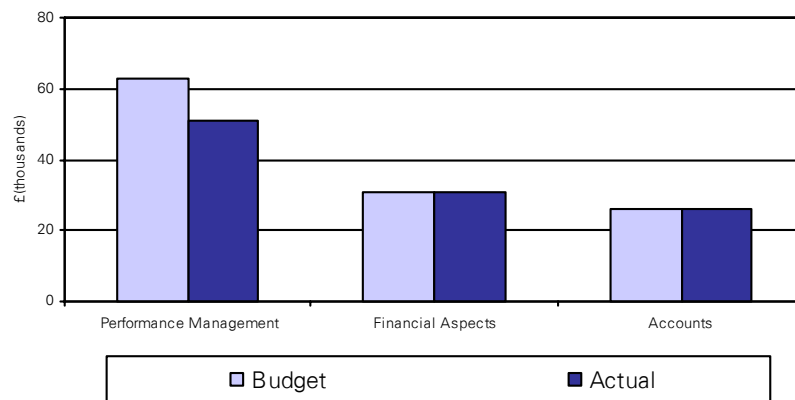
Appendix A: Summary of performance improvements *(continued)*

Number	Risk	Issue	Management response	Officer and due date
		Greenbury disclosures		
		<p>Within its financial statements, the Trust discloses the salary and pension entitlements of its senior managers. In order to do so, it is required to obtain consent from each member of Senior Management concerned. In March 2002 all Executive and non Executive Directors in post were requested to sign a declaration of consent that specific details around pay, age and pensions could be disclosed for that year and all future accounting periods.</p> <p>Changes to the pension benefits disclosure requirements in 2004/05 meant that the Trust was required to obtain new declarations to encompass the changes.</p>		
2	<p>● Two</p>	<p>During our audit we identified an Executive Director who left his post in the 2004/05 financial year, but for whom no new consent to disclose had been obtained. It transpired that this was due to a miscalculation of the leaving date of the individual concerned. The Trust had been under the understanding that they had actually left in the 2003/04 financial year. As a result of not having his consent, it was not possible to disclose within the financial statements the pension benefits for the Director, nor a note to state that consent had been withheld.</p> <p>The Trust should ensure that appropriate measures are taken to obtain consent from all relevant employees to disclose salary and pension entitlements.</p>	<p>The technical point made under the Greenbury disclosures is noted. The Trust will ensure that all relevant consents are obtained in future.</p>	<p>Mark Wilson, March 2006</p>

Appendix B: Summary of the audit

This section summarises our overall arrangements for delivering of your external audit in 2004/05. To make sure that there is openness between us and the Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2004/05 agreed external audit fee. We have also recorded a summary of the audit outputs that have been delivered in the 2004/05 period:

External audit fee for 2004-05



Report	Date issued	Number of performance improvements noted		
		High	Medium	Low
Interim Report	June 2005	-	9	1
Acute Hospitals Portfolio Phase 5	April 2005	7	3	1
Spot Check 2004	April 2005	8	3	-
Recovery plan (recommendations not graded)	December 2004	-	5	-
Data Quality	March 2005	2	4	2
Total		17	24	4

The analysis above shows that our audit fee has been included in the totals you have already approved and that we have not performed any other non-audit work. Please read the findings of our annual audit letter in the context of our findings in our other audit work presented to you during 2004/05, as summarised above. We have not reviewed our findings to check your progress as part of the annual audit letter, but all of our reports include action plans that we have agreed with management and that contain specific timescales in which we will follow up the performance improvements. We plan to undertake a full review of prior year follow up points during 2005/06.

Appendix C: Our responsibilities under the Audit Commission's Code of Audit Practice

The model of a public audit		Our main responsibilities	Our work in 2004/05
Model of corporate governance	Risk based audit planning	Performance management	<ul style="list-style-type: none"> • Use of resources • Performance information <p>We completed specific mandated reviews concerning the management of data quality and AHP. These were both separately reported during 2004/05.</p> <p>Our annual overview of the performance management arrangements was completed as part of our interim and final audits and our findings to date are included in this report.</p> <p>Our 2004/05 risk assessment identified one area of detailed review as a result of the red risk work steered by the Audit Commission. This area was Preparing for New Funding Flows.</p> <p>Due to the number of reviews undertaken at the Trust during 2004/05 and early 2005/06 we have agreed with the Trust to undertake this piece of work in 2005/06.</p>
		Financial aspects of corporate governance	<ul style="list-style-type: none"> • Financial position • Systems of internal financial control • Standards of financial conduct and preventing and detecting fraud and corruption • The legality of financial transactions <p>Our work focused on:</p> <ul style="list-style-type: none"> • Reviewing the forecasts and outturn against statutory financial targets, specifically focusing on the Trust's achievement of financial balance; • Assessing financial controls throughout the accounting period; • Review the work of Internal Audit and placing reliance on their work, where appropriate. • Ensuring that LCFS and fraud work was appropriately managed and delivered. <p>This work was reported as part of the Interim Report in June 2005.</p>
		Audit of the accounts	<ul style="list-style-type: none"> • Opinion audit <p>We have fulfilled our responsibilities under the Code of Audit Practice through the completion of the Trust accounts. Our audit work focused on and was dominated by ensuring that robust systems were in place to deliver the basic accounts balances and year end testing of specific accounts balances and assertions.</p>