



The Royal United Hospital NHS Trust Bath

Annual Audit Letter 2009-10

September 2010

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1 Introduction

Purpose of this letter

- 1.1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year at Royal United Bath NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate the significant issues we have identified, in an accessible style, 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 also on the Trust's website.
- 1.2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is also available from www.audit-commission.gov.uk.

Responsibilities of the external auditors and the Trust

- 1.3 We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including NHS trusts.
- 1.4 As the Trust's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas that involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives. It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We consider how the Trust is fulfilling these responsibilities as part of our audit work.

The scope of our work

- 1.5 Our responsibility as your external auditors is to plan and 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 Trust's financial statements; and
 - whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.6 This letter summarises the significant matters arising from these areas of our work in 2009-10 and highlights for the Trust the key areas for action. A list of all reports issued to the Trust in relation to the 2009-10 audit is provided in Appendix A and we have included details of our audit fee in Appendix B.

2 Audit of the Trust's financial statements

2.1 Our audit of the Trust's accounts included:

- review of the Trust's internal control systems where necessary to support our financial statements opinion;
- review of restated 2008-09 accounts under International Financial Reporting Standards (IFRS); and
- audit of the annual financial statements including the annual report.

Review of the Trust's internal control systems

- 2.2 We undertook sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Trust's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.3 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to provide adequate assurance on the effective operation of controls. We were pleased to report that the appointment of a new internal audit supplier allowed issues raised in 2007-08 to be addressed.
- 2.4 We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts, although we made some recommendations to enhance the IT control environment.
- 2.5 We reviewed findings included in internal audit and LCFS reports, along with our work, and the Trust's response to these matters and, concluded that there were no issues which presented a material risk to the accuracy of the financial statements.
- 2.6 We agreed an action plan with management to address all of the control issues we identified, which management monitor through a log of audit recommendations.

Review of restated 2008-09 accounts under IFRS

- 2.7 The Department of Health required the Trust to restate its balance sheet as at 1 April 2008 and to prepare restated accounts for the 2008-09 financial year as part of the implementation of International Financial Reporting Standards (IFRS) in 2009-10. The Trust met the respective deadlines of December 2008 and 4 September 2009 for these requirements.
- 2.8 We discussed the majority of issues arising on the restatement of accounts under IFRS principles at regular progress meetings during the year. As part of that process we discussed

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the Trust's proposed approach to accounting for a number of items under IFRS. This approach helped to ensure that the final accounts restatement audit progressed smoothly, with only minor presentational changes being made to the disclosures in the restated accounts.

- 2.9 Our work identified matters where we recommended that the Trust take action prior to preparation of the 2009-10 annual accounts in respect of:
- accounting policies where further tailoring was required to the standard wording provided by the Department of Health and, where further consideration was required to the accounting policy for equipment with high value and long lives; and
 - documentation to support contracted arrangements to deliver patient transport services and use of the Princess Anne wing by a local PCT.

Our audit opinion on the financial statements

- 2.10 We issued an unqualified opinion on the Trust's accounts that the accounts gave a true and fair view of the Trust's financial affairs and of its income and expenditure for the year. We completed our report on 7 June 2010 well within the deadlines set by the Department of Health.
- 2.11 We again received a complete set of draft accounts two days in advance of the accounts submission deadline set by the Department of Health. This represented a considerable achievement for the Trust, as these accounts were produced under IFRS for the first time.
- 2.12 The restatement of the 2008-09 accounts provided a sound basis for the preparation of the year end accounts under IFRS principles. We were pleased to note that the issues raised from that work were adequately addressed to produce materially accurate accounts for 2009-10.
- 2.13 The accounts were supported by working papers which were, overall, of a good quality, although there were areas, particularly in relation to analytical review, where we requested the Trust provide additional information as part of our audit. We have agreed with the Trust's finance team areas where improvements could be made to supporting working papers for future years.
- 2.14 We proposed a small number of adjustments in relation to misstatements in capital and provisions. The overall effect of these would have been to increase the Trust's reported surplus in the statement of comprehensive income by £130,000 and increase net equity in the statement of financial position by £316,000.
- 2.15 We reported this to the Audit Committee, through our ISA 260 report, and received formal representation from the Trust's Board that no adjustments would be made to the accounts, as their net effect was not considered to be material in relation to the Trust's overall reported financial position. We concurred with that decision.

3 The Trust's Use of Resources

- 3.1 This section summarises the audit work we undertook in order to form our value for money conclusion. In it we describe the results of our "Auditors Local Assessment" (ALE) of the Trust, and the reviews that we have undertaken on specific areas of of the trust's activities, as we set out in our audit plan.

Our Value For Money (VFM) conclusion

- 3.2 As part of the audit, we are required to:
- give an overall Use of Resources conclusion as part of our formal audit report, known as the Value For Money (VFM) conclusion, which states whether we are satisfied that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.; and
 - provide a scored assessment against criteria specified by the Audit Commission, known as the Auditor's Local Evaluation (ALE).
- 3.3 The VFM conclusion for NHS bodies comprises an assessment of the arrangements in 12 Code of Practice areas, which are closely linked with the Auditors Local Evaluation (ALE) judgements. This is supported by additional risk based work where this is considered to be appropriate based on our risk assessments.
- 3.4 In order for an unqualified VFM conclusion to be provided, an NHS body should achieve the minimum standards - level 2 under all ALE criteria. We considered that the Trust met all criteria and, as reported below, the Trust achieved level 3 on all the ALE criteria.
- 3.5 Although recommendations were made in the two reviews we carried out in 2009-10 we consider that the matters arising from these reviews did not impact on our overall conclusion.
- 3.6 We therefore concluded that the Trust had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources and gave an unqualified VFM opinion for the 2009-10 financial year.

Auditor's Local Evaluation (ALE)

- 3.7 We are also required to assess how well NHS organisations manage and use their financial resources by providing scored judgements on the Trust's arrangements in five specific areas, known as the Auditor's Local Evaluation (ALE). These judgements are grouped into five overall themes as follows:
- financial reporting;
 - financial management;

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- financial standing;
 - internal control;
 - value for money.
- 3.8 Trusts are assessed against five Key Lines of Enquiry (KLOE) using the Audit Commission's 1-4 scoring system, where:
- 1 = below minimum requirements - inadequate performance
- 2 = at minimum requirements – adequate performance
- 3 = consistently above minimum requirements – performing well
- 4 = well above minimum requirements – performing strongly.
- 3.9 For 2009-10, the Audit Commission introduced a more risk based approach to ALE, with less work being carried out at the better performing trusts based on previous years scores. Where trusts scored a 3 or 4 in any individual theme in 2008-09, auditors were not required to complete a full reassessment of those themes in 2009-10.
- 3.10 As the Trust had been assessed at level 3 for all overall themes in 2008-09 we were not required to perform a detailed ALE assessment this year. We were instead required to review a number of key triggers to assess whether there is evidence that the Trust is not performing at the level assessed in 2008-09, and complete additional review as necessary. Following this risk based approach we considered that a number of triggers were met and seven key lines of enquiry (KLoE) were reviewed as a result.
- 3.11 During 2009-10 the Trust experienced a significant deterioration in performance against its revenue budgets and did not achieve two of its key performance indicators at the year end. Therefore we have concluded that the Trust should receive lower scores in five separate KLoEs this year. Whilst this reduction has resulted in only one theme falling in score and the Trust maintaining level 3 performance for each theme, the Trust will need to improve its financial and operational performance in 2010-11 to prevent any further decline.

Review of hospital length of stay

- 3.12 In order to further improve both its operational and financial performance the Trust requires additional capacity and in 2009-10 focused on reducing the amount of time each patient spent in a hospital bed; a patients length of stay. Reducing a patients length of stay should provide additional capacity within the hospital.
- 3.13 We reviewed the Trust's progress in address the length of stay, and specifically focussed on the Trust's:
- assessment of targets to ensure they were realistic and achievable;
 - implementation and action plans;
 - performance management arrangements; and

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- level of clinical engagement to enable change.
- 3.14 We concluded that the Trust needs to continue to focus on reducing the average length of time and that this should be achieved through:
- improving the performance management arrangement of those initiatives introduced, to ensure the most effective action is taken;
 - ensure SMART and equitable targets are introduced; and
 - ensuring action and delivery is focused at patient/operational level.

Review of long term efficiency savings

- 3.15 The aim of this review was to assess if the Trust has the processes in place to both identify and deliver long term efficiency savings.
- 3.16 We concluded that the Trust did not achieve its planned efficiency savings in 2009-10, resulting in additional pressure on its financial position and that the Trust needs to ensure that planned efficiency savings were supported with robust and achievable delivery plans. The Trust should focus on developing longer term real efficiency savings, as opposed to short term non-recurring reduction in costs.

4 Closing remarks

Key areas for action

- 4.1 We reported during 2009-10 a number of recommendations in our individual reports, the reports we have issued are set out in Appendix A. The key areas that we feel need the most urgent attention by the Trust Board over the coming year are:
- ensure that sound financial management and controls are maintained throughout the year, in order to ensure deviations from budget are identified and addressed earlier in the process; and
 - ensure that an efficiency savings plan looking at the next three years is developed and based on real efficiency savings.

Actions moving forward

- 4.2 The Government has announced that all NHS trusts will be required to seek authorisation as a Foundation Trust over the next two years. Our experience from working with other aspirant trusts going through this process has shown that this can be a difficult and time consuming process. Whilst this is clearly an important process for the Trust the lessons from the Mid Staffordshire enquiry highlighted the dangers of focussing too much management resource on this rather than ensuring that the Trust continues to meet patient care expectations at a time of significant cost pressures.

Closing Remarks

- 4.3 This letter will be presented to the Audit Committee on 16 September 2010 and to the Board on 13 October 2010.
- 4.4 We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Trust's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP

September 2010

A Reports issued in relation to the 2009-10 audit

Report	Date Issued
Audit fee letter	24 March 2009
Report on restatement of 2008/09 accounts under IFRS	3 December 2009
Financial statements plan	3 December 2009
Review of hospital length of stay	3 December 2009
Interim audit report including initial ALE assessments	11 March 2010
ISA260 communication of audit matters to those charged with governance	7 June 2010
Review of long term efficiency savings	7 June 2010
ALE report	16 September 2010
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B Audit fee 2009-10

The table below summarises the planned and actual audit fees charged in respect of work at the Trust during 2009-10.

Audit area	Plan 2009-10 (£)	Actual 2009-10 (£)	Actual 2008-09 (£)
Accounts	95,000	95,000	98,000
Use of resources	55,000	55,000	67,000
Total audit fee billed to the Trust	150,000	150,000	165,000
Amount billed to Audit Commission in respect of mandated IFRS transition review	-	-	9,000
Additional project work - length of stay	5,000	5,000	-
Total	155,000	155,000	174,000



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