

University Hospitals of Leicester 
NHS Trust

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

REPORT BY TRUST BOARD COMMITTEE TO TRUST BOARD

DATE OF TRUST BOARD MEETING: 3 November 2011

COMMITTEE: Audit Committee

CHAIRMAN: Mrs K Jenkins, Non-Executive Director

DATE OF COMMITTEE MEETING: 30 September 2011

RECOMMENDATIONS MADE BY THE COMMITTEE FOR CONSIDERATION BY THE TRUST BOARD:

- 2010-2011 Annual Audit Letter (Minute 53/11).

OTHER KEY ISSUES IDENTIFIED BY THE COMMITTEE FOR CONSIDERATION/ RESOLUTION BY THE TRUST BOARD:

- Board Assurance Framework (Minute 58/11)
- External Audit Review of Governance Arrangements (Minute 63/11/2).

DATE OF NEXT COMMITTEE MEETING: 15 November 2011

**Mrs K Jenkins
28 October 2011**

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON
FRIDAY 30 SEPTEMBER 2011 FROM 10.30AM IN THE LARGE COMMITTEE ROOM, MAIN
BUILDING, LEICESTER GENERAL HOSPITAL****Present:**

Ms K Jenkins – Non-Executive Director (Chair)
 Mr R Kilner – Non-Executive Director
 Mr I Reid – Non-Executive Director
 Mr D Tracy – Non-Executive Director (from Minute 57/11 (part) onwards)

In Attendance:

Mrs G Belton – Trust Administrator
 Miss M Durbridge – Director of Safety and Risk (for Minute 57/11 only)
 Dr K Harris – Medical Director (for Minute 57/11 only)
 Ms S Hotson – Director of Clinical Quality (for Minute 62/11/3 only)
 Mr A Seddon – Director of Finance and Procurement
 Mr J Shuter – Deputy Director of Finance and Procurement
 Mr S Ward – Director of Corporate and Legal Affairs
 Mr A Bostock – KPMG (the Trust's External Auditor)
 Mr D Sharif - KPMG (the Trust's External Auditor) – up to and including Minute 62/11/3
 Ms J Clarke – Local Counter Fraud Specialist (East Midlands Internal Audit Services) (from Minute 54/11 – 60/11 inclusive)
 Ms A Breadon – Head of Internal Audit, PWC (the Trust's Internal Auditor)
 Ms J Watson – Senior Internal Audit Manager, PWC (the Trust's Internal Auditor)

RECOMMENDED ITEM**53/11 2010-11 ANNUAL AUDIT LETTER**

Paper N detailed the draft Annual Audit Letter and summarised the key issues arising from KPMG's 2010/11 audit of the Trust, highlighting areas of good performance and recommendations.

In response to a query, KPMG noted that they would be undertaking a follow-up to this report within their next cycle of work, and would track the recommendations through the system.

Particular discussion took place regarding the Trust's CIP schemes, and the fact that the schemes this year represented a more significant challenge in terms of their deliverability, in comparison to those of previous years.

Recommended – that the contents of the draft 2010-11 Annual Audit Letter be received and noted and the final version (now appended to these Minutes) be recommended onto the Trust Board for formal receipt and endorsement.

RESOLVED ITEMS**ACTION****54/11 PRIVATE DISCUSSIONS WITH BOTH SETS OF AUDITORS**

As at the previous meeting, and in line with the guidance detailed within paper A, private discussions took place between the Chairman and members of the Audit Committee and External and Internal Audit ahead of the start of the formal meeting.

Resolved – that the position be noted.

55/11 APOLOGIES

Apologies for absence were received from Mr M Lowe-Lauri, Chief Executive.

56/11 MINUTES

Members confirmed that the Minutes of the previous meeting held on 31 May 2011 (paper B refers) were a correct record. In further discussion, the Chair requested that the Trust Administrator submitted only the Minutes of the previous meeting (for formal agreement) and the Matters Arising Report to future meetings of the Audit Committee, and not also the action sheet produced and circulated shortly after each meeting (paper B1 refers).

TA

Resolved – that (A) the Minutes of the meeting held on 31 May 2011 (paper B refers) be confirmed as a correct record,

(B) the contents of the associated Audit Committee action sheet arising from the same meeting (paper B1 refers) be received and noted, and

(C) the Trust Administrator be requested to submit only the Minutes of the previous meeting and the Matters Arising Report (and not also the action sheet) to future meetings of the Audit Committee.

TA

57/11 MATTERS ARISING FROM THE MINUTES

Members considered the contents of the Matters Arising Report (paper C refers) and particularly discussed the following:

- Minute 43/11/1.3 (relating to the updating of the annual calendar of business for the Audit Committee in line with changes arising from the Audit Committee Handbook 2010, and also a review of the training requirements of Audit Committee members) – in response to a query, the Director of Corporate and Legal Affairs confirmed that he would be in a position to submit a progress report to the November 2011 meeting of the Audit Committee;
- Minute 43/11/1.4 (relating to the work that the Trust's previous Internal Auditors had been due to undertake facilitating visits between UHL and Trusts within the East Midlands Region currently using the best CIP models, which had not been actioned due to the termination of their contract) – in response to a query, the Director of Finance and Procurement confirmed that, apart from the work now on-going with Deloitte and Finnamore, the Trust was continuing with the programme of exchanges. He also confirmed that he, along with the Chief Operating Officer / Chief Nurse, would be attending a workshop on CIPs due to be held by the UK University Teaching Hospitals. The learning from this work would feed into the Executive Team and, where appropriate, the Finance and Performance Committee;
- Minute 29/11/1 (relating to the production of a sustainability report as part of the Annual Report for 2010-11 in preparation for mandatory sustainability reports from 2011-12) – members discussed the Trust's readiness to meet this requirement, and noted that this matter would be addressed through the planning process for the annual accounts;
- Minute 02/11 (relating to the revised Treasury Management Policy being developed for presentation to the Audit Committee early in 2012) – it was noted that this item was provisionally scheduled on the agenda for the Audit Committee meeting in February 2012, and could therefore now be removed from the Matters Arising Report;

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TA

- Minute 76/10 (relating to the update on the Board Assurance Framework as presented at today's meeting) – noted that this item could now also be removed from the Matters Arising Report, and
- in general discussion regarding the content of the Matters Arising Report, the Chair requested that items arising from meetings should be dealt with on a timely basis and not carried forward for more than one meeting.

TA

Resolved – that (A) the matters arising report (paper C) be received and noted,

(B) the Director of Corporate and Legal Affairs be requested to submit a progress report (relating to Minute 43/11/1.3 above) to the November 2011 meeting of the Audit Committee, and

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(C) the Trust Administrator be requested to remove information relating to Minutes 02/11 and 76/10 from the Matters Arising Report.

TA

58/11 BOARD ASSURANCE FRAMEWORK

Dr Harris, Medical Director and Miss Durbridge, Director of Safety and Risk attended to present paper 'D', which provided an update on the development of the UHL SRR/BAF (Strategic Risk Register / Board Assurance Framework), a description of the process for populating and reviewing the SRR/BAF and a copy of the most recent iteration of the UHL SRR/BAF attached at Appendix 1 to paper D (as agreed at the Executive Team meeting on 20 September 2011). The Director of Safety and Risk drew members' attention to the fact that all writing in red within the document represented new information which had been included since the last presentation of the report. The Audit Committee was invited to receive and note the contents of this report and review and comment upon this iteration of the SRR / BAF.

In discussion on this item, members:

- (i) queried whether this document had been signed off by the Executive Team (ET)– it was confirmed that ET had agreed the format for the document and reviewed its contents on a monthly basis (two weeks prior to each Trust Board meeting) for validation purposes;
- (ii) debated the terminology used within the report (e.g. target risk, net risk etc) and requested that the current work status was made clear within the report. A specific request was made that the term 'net risk' was renamed 'current risk' for the purpose of clarification;
- (iii) challenged the current risk grading of '12' in respect of risk number 14 (relating to clinical leadership) particularly in light of recent discussions at the Workforce and Organisational Development meeting. It was accepted that this risk grading required further review, and it was noted that the Director of Safety and Risk, Director of Human Resources and Risk and Assurance Manager would be meeting for this purpose, and that the risk grading would be amended in the next iteration of the document (October 2011);
- (iv) queried why risks 4 and 17 were both required (due to their similarity) – the Director of Safety and Risk agreed to look into this issue outwith the meeting and revise accordingly, if appropriate;
- (v) suggested general improvements to the document, for example, relating to the quality of the information under the headings;
- (vi) debated the levels of assurance and source from which assurances were derived (e.g. references were made to meetings, but there was not a description of the work being undertaken within the meetings, and where this linked across to other risks) – the Director of Safety and Risk

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- undertook to reflect on this (and the other comments) and make amendments to the document as appropriate (and for continual monthly review);
- (vii) noted the importance for the Audit Committee to be able to identify where the gaps in assurance lay – it was agreed that the Director of Finance and Procurement and Internal Audit would undertake further discussions outwith the meeting regarding the provision of further supplementary assurance for the BAF, further to which the Trust Administrator was requested to schedule an item on the next Audit Committee agenda focussing on the Board Assurance Framework, in particular the identification of gaps in assurance and actions taking place to address these;
- (viii) queried whether any work was undertaken to identify any items which were not on the register but should be – in response the Director of Safety and Risk noted that the operational risk register was discussed at the Quality and Performance Management Group meeting every month, the strategic risk register at the Trust Board on a monthly basis and both the operational risk register and strategic risk register at the Governance and Risk Management Committee on a quarterly basis;
- (ix) noted an error in the document as currently presented (two risks both had a score of '9' yet one had been rag rated amber and the other as green).The Director of Safety and Risk undertook to amend this error accordingly;
- (x) queried whether the transformational work being undertaken by Deloitte and Finnamore was fully reflected in terms of the items regarding financial risk as presented within the document, and whether the actions taking place would address all the gaps for risk 9 – in response, the Director of Finance and Procurement confirmed that the actions taking place would address the gaps for risk 9. He further noted that the Deloitte and Finnamore review would provide the Trust with substantial assurance and he undertook to update the document to reflect the further information received from Deloitte and Finnamore, and
- (xi) considered whether other risks were also being effectively managed during the current financially challenging period – the Director of Finance and Procurement made note of the changing landscape throughout the NHS currently, noting the practice in the Trust to review all areas in terms of quality as well as finance; a practice which was also supplemented by a number of informal measures (e.g. Health and Safety Walkabouts etc) through which any relevant risks could be identified.

In conclusion, the Chair thanked the Medical Director and the Director of Safety and Risk for attending the meeting to present this report.

Resolved – that (A) the contents of this report be received and noted,

(B) the Director of Safety and Risk be requested to review the contents of the BAF and amend as appropriate (giving particular regard to points (ii), (iii), (iv), (v), (vi) and (ix) above;

(C) the Director of Finance and Procurement and Internal Audit be requested to meet further, outwith the meeting, regarding the provision of further supplementary assurance for the BAF, further to which the Trust Administrator be requested to schedule an item on the next Audit Committee agenda focussing on the Board Assurance Framework, in particular the identification of gaps in assurance and actions taking place to address these, and

(D) the Director of Finance and Procurement be requested to update the SRR/BAF to reflect further information received from Deloitte and Finnamore (point (x) above refers).

DFP

59/11 FINANCE STATUS AND STRATEGIC OVERVIEW

59/11/1 2011-12 Transformational CIP Schemes – Overall Governance Aspects

Resolved – that this item be withdrawn and covered under Minute 59/11/2 below.

59/11/2 Update on the Transformation Plan and any issues to date arising from that Plan

The Director of Finance and Procurement presented paper 'F', which detailed an update on progress against the 2011/12 Stabilisation and Transformation Plan. Members were requested to note the current position as described within the report and the additional verbal information provided by the Director of Finance and Procurement and the Chair of the Finance and Performance Committee with regard to a report presented to the Finance and Performance Committee by Deloitte and Finnamore on 28 September 2011. A detailed report was due to be submitted to the Trust Board meeting (private session) on 6 October 2011.

In discussion on this item, members:

- (i) noted the long-term opportunities for the Trust that would arise out of the work of Deloitte and Finnamore (in addition to the short and medium term opportunities), and the fact that Deloitte and Finnamore were due to present again on progress to the Finance and Performance Committee at its next meeting on 27 October 2011;
- (ii) queried when the Trust would start to see the turnaround in its financial position – it was noted that some of the areas identified could be implemented immediately, whilst others were more 'medium-term' in nature. A follow-up between the Executive Team and Deloitte and Finnamore was planned for a week's time, and
- (iii) debated one particular CIP scheme (prior to the Deloitte and Finnamore work) that had commenced implementation prematurely and had to be delayed due to an unproven set of benefits.

Resolved – that the contents of this report, and the additional verbal information provided, be received and noted.

60/11 OPERATIONAL FINANCE ISSUES

60/11/1 Discretionary Procurement Actions

Resolved – that the contents of this report (paper G refers) be received and noted.

61/11 ITEMS FROM THE LOCAL COUNTER FRAUD SPECIALIST

Resolved – that the consideration of these items be classed as confidential and taken in private accordingly, on the grounds that public consideration at this stage could be prejudicial to the effective conduct of public affairs.

62/11 ITEMS FROM INTERNAL AUDIT

62/11/1 Revised Internal Audit Plan 2011-12

Paper I provided the Committee with a revised 2011/12 audit plan. In response to a query raised, Internal Audit confirmed that they were confident in their delivery of the plan, however it would be necessary to schedule this work appropriately around the other work on-going within the Trust, and they would be meeting with the Director of Finance and Procurement and Chief Operating Officer / Chief Nurse, for this purpose.

Resolved – that the contents of this report be received and noted.

62/11/2 Internal Audit Progress Report

Paper J provided the Committee with an update of the work of Internal Audit since the last meeting of the Audit Committee. It included an overview of the status of the audit plan and issues raised. Internal Audit noted the need for the plan to be a ‘moving’ document, with the potential for additional work to be scheduled in relation to PLICS.

Particular discussion took place regarding the status of a number of follow-up recommendations and the outstanding work to be undertaken by the Trust in clearing the backlog of recommendations, particularly those which had exceeded their ‘due date’. The Director of Finance and Procurement undertook to raise this issue with relevant Executive Director Leads and request that the outstanding actions were undertaken and closed down. It was also agreed that the Director of Finance and Procurement would set targets (for the completion of any outstanding actions) by the next meeting of the Audit Committee. The Committee considered that management should commit to a date by which to deliver the actions and if this was not achieved, then relevant Leads should report back on the reasons for this to the Committee. It was agreed that the Chair of the Audit Committee would liaise closely with Internal Audit and request that for any overdue items the Executive Lead responsible for the action attend the Audit Committee to provide an update and revised timeline for completion.

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Chair

Members discussed issues relating to information governance and it was suggested that it might be helpful for the Committee to invite Mr J Clarke, Chief Information Officer, to attend a future meeting of the Audit Committee to report on the key challenges faced.

Resolved – that (A) the contents of this report be received and noted,

(B) the Director of Finance and Procurement be requested to:

- (1) raise the issues discussed above with relevant Executive Director colleagues and request that any outstanding audit actions were completed and closed down, and**
- (2) set targets for the completion of outstanding recommendations by the next meeting of the Audit Committee, and**

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(C) the Chair of the Audit Committee be requested to liaise closely with Internal Audit with respect to audit recommendations and for any overdue items the Executive Lead responsible for the action be requested to attend the Audit Committee to provide an update and revised timeline for completion.

Chair

63/11 **ITEMS FROM EXTERNAL AUDIT**

63/11/1 External Audit Progress Report

Members received and noted the contents of paper ‘K’, which provided a summary

of work performed since May 2011, and work planned for the next quarter.

Particular discussion took place regarding the Quality Governance Framework (page 6 of the report refers), and the planned work in relation to this item.

Resolved – that the contents of this report be received and noted.

63/11/2 External Audit Review of Governance Arrangements

Mr Bostock, KPMG, presented paper 'L', which detailed a summary of work undertaken including key issues and recommendations identified during KPMG's review of the Trust's governance arrangements, including follow up of their 2009/10 report. There were fourteen recommendations in total, of which five were high priority and five of medium priority (appendix 1 of the report refers).

Whilst the Trust had robust arrangements in place to support the Trust Board, it was noted that the key challenge for the Trust lay in extending and developing more effective governance arrangements amongst the Divisions and Clinical Business Units (CBUs). Strengthening divisional grip would require a focus on the key issues and the delivery of action oriented outcomes.

In discussion on this item, members:

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| (i) | discussed the need for greater accountability (and a greater sense of urgency or 'heat' within the system, with the culture being 'action focussed') and how best to achieve this (e.g. through ensuring that Divisional meetings worked, the need for ownership around any 'red' actions, offering assistance to Clinical Leads where appropriate etc); | |
| (ii) | noted the Director of Finance and Procurement's intention to share the contents of the report internally; | DFP |
| (iii) | noted that many of the actions had a date (by which they were to be achieved) of 31 December 2011, and requested that interim milestones were developed to enable monitoring of progress to completion; | DCLA/
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| (iv) | considered that the contents of this report should be shared with Deloitte and Finnamore, and for engagement to take place with KPMG in this respect, | DCLA/
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/CN |
| (v) | noted that the recommendations of this report would be discussed at the planned Executive Team Away Day on 18 October 2011 (in order that the relevant management action could be determined, along with the assignment of relevant accountabilities, and details of the anticipated end state), and | DCLA/
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| (vi) | agreed that the Director of Finance and Procurement, Director of Corporate and Legal Affairs and Chief Operating Officer / Chief Nurse would jointly submit a progress report to the next meeting of the Audit Committee. | DFP/
DCLA/
COO/CN |

Resolved - that (A) the contents of this report be received and noted,

(B) the Director of Finance and Procurement be requested to undertake the action outlined under point (ii) above, and

DFP

(C) the Director of Finance and Procurement, Director of Corporate and Legal Affairs and Chief Operating Officer / Chief Nurse be requested to undertake the actions outlined under points (iii), (iv) and (v) above, submitting a joint report on progress to the next meeting of the Audit Committee.

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63/11/3 External Audit Review of 2010-11 Quality Accounts

The Director of Clinical Quality attended to present paper 'M', which detailed the Management Response to the KPMG Report; Quality Accounts 2010/11 External Assurance Dry Run Exercise. The full report was attached at appendix 1 to paper M. Pages 10 to 12 of the report provided further detail of the nine actions required; two of which were assessed as being of medium risk (and related to data quality in general), with the remaining seven actions being low risk. The Director of Clinical Quality reported verbally on progress made to-date. External Audit noted that UHL came out well when benchmarked against their peers. They also noted that a follow-up review had been scheduled for later this year.

Resolved – that the contents of this report be received and noted.

64/11 **ITEM FOR APPROVAL**64/11/1 Audit Committee Meeting Dates 2012

Resolved – that the meeting dates of the Audit Committee in 2012 be agreed as follows (paper O refers). All meetings would have a pre-meet from 10am until 10.30am (to involve Non-Executive Directors, Internal Audit and External Audit colleagues) with the Committee meeting held from 10.30am until 1pm on:

- Tuesday 14 February 2012;
- Tuesday 17 April 2012;
- Tuesday 29 May 2012;
- Tuesday 4 September 2012, and
- Tuesday 13 November 2012.

Post Meeting Note: It was subsequently agreed that the Audit Committee meeting scheduled for April 2012 would be held on Wednesday 18 April 2012 (and not Tuesday 17 April 2011) as agreed at the meeting.

65/11 **ASSURANCE GAINED FROM THE FINANCE AND PERFORMANCE COMMITTEE AND THE GOVERNANCE AND RISK MANAGEMENT COMMITTEE**

Brief discussion took place regarding salient points arising from the Finance and Performance Committee meeting held on 28 September 2011 (relating to the anticipated year-end deficit and the first monthly report from Deloitte and Finnamore) and the Governance and Risk Management Committee meeting held on 29 September 2011 (relating to ED performance, SUI clusters, pressure sores and the planned production of common information to share with commissioners in terms of safety and quality). In further discussion regarding benchmarking data relating to pressure sore prevalence, Internal Audit undertook to determine if they could identify anything of assistance to the Trust.

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Resolved – that (A) this verbal information be noted, and

(B) Internal Audit be requested to determine if they had any benchmarking data relating to pressure sore prevalence which would be of assistance to the Trust.

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66/11 MINUTES FOR INFORMATION

66/11/1 Governance and Risk Management Committee

Resolved – that the Minutes of meetings of the Governance and Risk Management Committee held on 26 May 2011, 30 June 2011 and 28 July 2011 (papers P – P2 refer) be received and noted.

66/11/2 Finance and Performance Committee

Resolved – that the Minutes of meetings of the Finance and Performance Committee held on 25 May 2011, 29 June 2011 and 28 July 2011 (papers Q – Q2 refer) be received and noted.

67/11 ANY OTHER BUSINESS

Resolved – that there were no further items of business.

68/11 IDENTIFICATION OF ANY KEY ISSUES FOR THE ATTENTION OF THE TRUST BOARD

Resolved – that the following items be brought to the attention of the Trust Board:

- Board Assurance Framework (Minute 58/11);
- Local Counter Fraud Specialist Progress Report (private Minute 61/11), and
- External Audit Review of Governance Arrangements (Minute 63/11/2).

69/11 DATE OF NEXT MEETING

Resolved – that the next meeting of the Audit Committee be held on Tuesday 15 November 2011 at 2.00pm in Conference Rooms 1A and 1B, Gwendolen House, Leicester General Hospital.

The meeting closed at 12.59pm.

Gill Belton
Trust Administrator



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University Hospitals of Leicester NHS Trust

Annual Audit Letter 2010/11

26 October 2011



The contacts at KPMG in connection with this report are:

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This report is addressed to University Hospitals of Leicester NHS Trust (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 Andrew Bostock who is the engagement lead to the Trust or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2010/11 audit at University Hospitals of Leicester NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate these issues to key external stakeholders, including members of the public. It is the responsibility of the Trust to publish the letter on the Trust's website at <http://www.uhl-tr.nhs.uk/>

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. A summary of our key recommendations is summarised in Appendix A. We have reported all the issues in this letter to the Trust throughout the year and a list of all reports we have issued is provided in Appendix B.

Scope of our audit

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) which requires us to report on:

Use of Resources (UoR)	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.</p> <p>We have concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
Financial Statements, including the Statement on Internal Control	<p>We provide an opinion on the Trust's accounts.</p> <p>We issued an unqualified opinion on the Trust's accounts on 8 June 2011. 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 during the year.</p>

Fees

Our fee for 2010/11 was £287,500 excluding VAT and the audit of charitable funds (2009/10: £287,800). This was in line with the fee agreed at the start of the year with the Audit Committee.

We have summarised below the key messages arising from our 2010/11 external audit work:

<p>Use of Resources</p>	<ul style="list-style-type: none"> • We have completed our reviews of the Trust’s Cost Improvement Programme and its governance arrangements. We made a number of recommendations which have been reported in full, including: <ul style="list-style-type: none"> ➢ The Cost Improvement Programme – to bring forward and accelerate the timeline and actions for business planning, ensure consistency of year to date reporting and accurate reporting and improving accountability in Divisions. ➢ Governance arrangements - to increase the focus and drive on the challenge and scrutiny of finance, performance and quality through the three key members of the Divisional team and undertake a skills and capabilities review at Divisional and CBU level. <p>These reviews also noted the developments undertaken by the Trust to strengthen and develop the organisation.</p> <ul style="list-style-type: none"> • Our summary of key messages arising from our review of the 2010/11 Quality Account and the Trust’s 2009/10 reference costs submission to Department of Health are detailed overleaf. • We concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We issued an unqualified Use of Resources opinion for 2010/11.
<p>Financial Statements including the Statement on Internal Control</p>	<ul style="list-style-type: none"> • The Trust incurred a total comprehensive loss of £3.3m. The retained deficit for the year was £2.5m (which equates to a surplus of £1m (£51k in 2009/10) before the deduction of charges for impairments of Property, Plant and Equipment of £3.6m (£4m in 2009/10)). These are accounting entries only and do not result in a cash charge to the Trust. For the purposes of the financial performance, this ‘technical deficit’ does not result in a breach of the Trust’s duties to achieve financial balance and therefore does not impact on our Use of Resources conclusion. • We issued an unqualified opinion on the Trust’s accounts on 8 June 2011. 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 during the year. • There were no significant matters which we were required to report to ‘those charged with governance’. • We have also confirmed that the Trust complied with the Department of Health requirements in the preparation of its Statement on Internal Control.
<p>Whole of Government Accounts</p>	<ul style="list-style-type: none"> • Following the clarification of ISA 600 audits of group financial statements, the National Audit Office issued guidance in April 2011 regarding the work auditors of NHS Trusts are required to undertake in order to provide assurance for the Whole of Government Accounts consolidation. • From our work we identified this as an area in which the Trust can strengthen its arrangements over the disclosure and presentation of Whole of Government Accounts. Our key findings and recommendations arising from our review were reported to the Audit Committee in May 2011.

<p>Quality Accounts</p>	<ul style="list-style-type: none"> • In March 2011 the Audit Commission has issued guidance regarding the review of Trusts' quality accounts. As a result we undertook a review of the Trust's arrangements for satisfying itself that the Quality Account is fairly stated, prepared in accordance with relevant requirements, and testing of two performance indicators for C Difficile and 62 day cancer wait. • Given that our locally agreed review of Trust's data quality arrangements was already underway at the time the Audit Commission issued its guidance, we extended the scope of our review to include the Quality Account work. • From our work we identified a number of recommendations to the Trust, including: <ul style="list-style-type: none"> ➢ The use of the data quality kite-mark in the Board Assurance Framework, Divisional heat maps and CBU reporting of KPIs; ➢ Improvements to the presentation of information contained in the Quality Account, including evidence of outcomes and benchmarking in the Quality Account; and ➢ Greater involvement and engagement with its Divisions in the production and development of the 2011/12 Quality Account. • Our key findings and recommendations arising from our review were reported to the Audit Committee in September 2011.
<p>Payment by Results - Reference Costs Audit</p>	<ul style="list-style-type: none"> • For 2010/11, the Audit Commission mandated a review of the Trust's 2009/10 reference cost submission under the Payment by Results assurance framework. • Our review of the Trust's 2009/10 reference cost submission highlighted good practice in relation to the engagement of senior management and clinicians in the 2009/10 reference cost submission process. This is due to the Divisional approach the Trust takes to the review of cost apportionment methods and activity outputs, and the confirmation and approval of the accuracy of the reference costs submission. • We identified a number of areas for development in advance of the 2010/11 reference cost submission process, in particular: <ul style="list-style-type: none"> ➢ More senior management and clinician engagement at the start of the reference cost submission process; ➢ Strengthening the reference cost submission process following the full implementation of Patient Level Information and Costing System (PLICS); and ➢ Review of the apportionment of costs and recording of activity for specific procedures arising from our detailed testing. • We reported our key findings and recommendations arising from our review to the Audit Committee in March 2011.
<p>Recommendations</p>	<ul style="list-style-type: none"> • We have summarised the key recommendations arising from our 2010/11 audit work at Appendix A. • The Trust has taken action to implement agreed audit recommendations from prior years. We have followed up recommendations made in 2009/10 in our reports throughout the year, and have presented details of actions taken by the Trust in our Interim Report (April 2011) and our ISA 260 report (June 2011).

The Trust will continue to face significant challenges for the remainder of 2011/12 and beyond as a result of:

- Tightening financial pressures on income and expenditure; and
- Maintaining the balance across quality, performance and finance.

To achieve its deliverables the Trust needs to:

Strengthen through its Divisions its 'grip' on finance and performance

- The Trust has responded to the current financial challenges through a series of actions including the approval of a financial recovery plan by the Board in July 2011, the establishment of 14 transformation projects to support the delivery of Trust wide efficiencies, and the appointment of external support. In addition, the Trust has developed its governance arrangements for the Finance and Performance and Governance and Risk Management Committees and organisational development plans to support managerial capacity and succession planning.
- Developments at Divisional and Clinical Business Unit level include the introduction of weekly key metrics, additional support in relation to forecasting and performance management and clarity around performance objectives and expectations.
- The Trust has been open and transparent in reflecting on the factors which have contributed to the current financial position, and recognises that its governance arrangements need to further develop to ensure a strong 'grip' across the organisation. In particular, there is a need to improve accountability and engagement at Divisional and Clinical Business Unit level.

Undertake robust business planning

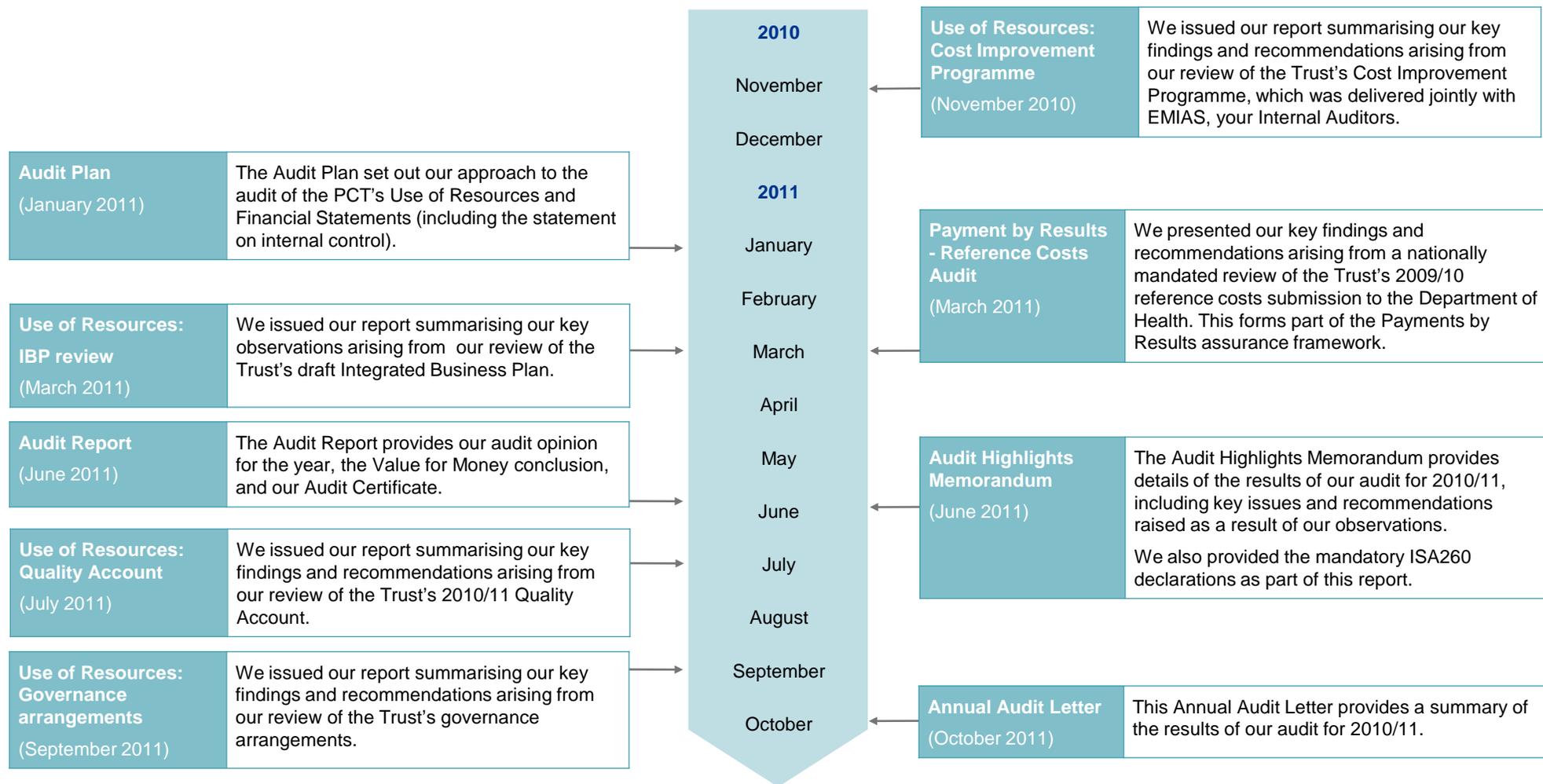
- Over the next three years the local health economy requires total savings in excess of £250m from its constituent bodies expenditure of £1.8bn. As a significant provider of services to the local health economy, the Trust will need to develop a robust Long Term Financial Model that reflects the impact of these funding pressures over the medium term and the investments required to deliver real efficiency and productivity improvements to maintain financial stability.
- The Trust's 2011/12 financial plan includes a challenging cost improvement programme of £38m. At month four the Trust is reporting a cumulative deficit of £11.3m, the majority of which is attributable to increases in expenditure (in particular the use of temporary staff) of £10.6m to date.
- To support the Trust's Foundation Trust application it will need to strengthen the financial planning capability and capacity at Divisional levels so that the Trust has a detailed and realistic assessment from its sensitivity analyses and risk mitigation actions.

We will assess the Trust's response to these challenges as part of our external audit plan for 2011/12, for example in reviewing the Trust's developing governance arrangements.

This appendix summarises the key recommendations raised in our 2010/11 reports. Management accepted all our recommendations and have produced an action plan including dates for implementation and staff responsible for these actions.

Source	Recommendation	Issue date
Cost Improvement Programme	<p>Our review of arrangements over the Trust's Cost Improvement Programme (CIP) resulted in a number of recommendations to strengthen:</p> <ul style="list-style-type: none"> • Timeliness and actions for the business planning and CIP identification • Engagement with Divisions to agree and produce a CIP framework • Consistency of year to date and forecast reporting 	Our report was issued in November 2010 and presented to the November 2010 Audit Committee.
Interim	<p>Our key recommendations arising from our Interim report relate to:</p> <ul style="list-style-type: none"> • Fixed asset verification • In year journal authorisation • Review of current VAT arrangements 	Our report was issued in April 2011 and presented to the April 2011 Audit Committee.
ISA 260	<p>Our key recommendations arising from our ISA 260 report relate to:</p> <ul style="list-style-type: none"> • Fixed asset register • Legal provisions • Whole of government accounts 	Our report was issued in June 2011 and presented to the June 2011 Audit Committee.
Quality Account	<p>Our review of arrangements over the 2010/11 Quality Account resulted in a number of recommendations to strengthen:</p> <ul style="list-style-type: none"> • Use of the data quality kite-mark in, Divisional heat maps and CBU reporting of KPIs • The presentation of information in the Quality Account, including evidence of outcomes and benchmarking • Greater involvement and engagement with Divisions in the production of the 2011/12 Quality Account 	Our report was issued in July 2011 and presented to the September 2011 Audit Committee.
Governance arrangements	<p>Our review of arrangements over the Trust's governance arrangements resulted in a number of recommendations to strengthen:</p> <ul style="list-style-type: none"> • Focus on the challenge and scrutiny of performance and quality through the Divisional management team • Medical engagement with management at the Divisional and CBU level • Arrangements by replicating improvements from the Board to Divisional Board and CBU meetings 	Our report was issued in September 2011 and presented to the September 2011 Audit Committee.

This appendix summarises the reports we issued in 2010/11.





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