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University Hospitals of Leicester NHS Trust

Annual Audit Letter 2011/12

October 2012

Contents

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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 are 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.

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2011/12 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.leicesterhospitals.nhs.uk

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

Scope of our audit

The Audit Commission Act 1998 sets out the statutory responsibilities and powers of appointed auditors. 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)	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.
Financial Statements including the Annual Governance Statement	We provide an opinion on the Trust's accounts. That is whether 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. We also confirm that the Trust has complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement.

Fees

Our fee for the audit in 2011/12 was £273,125 plus VAT. We have also provided the audit of the Trust's Charitable Funds for a fee of £10,700 plus VAT, and the audit of the Quality Accounts for £12,500 plus VAT. These fees are in line with those highlighted within our audit plan and communicated to the Audit Committee during the year.

We have also completed the following pieces of work at the Trust during the year:

Refund of overpayments	We provided advice in relation to the refund of PAYE, NIC and pension contribution payments made to employees after leaving their employment with the Trust. The 2011/12 financial statements recognise a refund from HRMC of £1.066m relating to this work. The fee for this work was £40,000.
Salary Sacrifice Scheme	This relates to the provision of support in relation to salary sacrifice advice and technology. The fee for this work was £25,000.

Headlines

Key Messages	The Trust made a surplus of £88k in 2011/12. However, this surplus was achieved through non-recurrent income, which cannot be relied upon in the future. Whilst the Trust has secured elements of this income in next year's contracts, the Trust cannot rely on significant sums of non-recurrent income to deliver its future plans and will need to strengthen its future approach to financial planning and delivering CIPs. Despite improved CIP performance in the latter half of the year, the Trust underachieved on its 2011/12 CIP target of 32m (5.6% of planned turnover) by £13.1m (34% of the total CIP) and experienced expenditure pressures. As a result, the Trust needed to implement a number of actions identified during the year to achieve its surplus. The Trust did not meet the following performance targets, however we identified appropriate actions taken and evidence of improvement: • cancer target (8 out of 9 targets achieved) – The Trust breached the 62 day referral to treatment target due to a small number of patients affecting the year-end position resulting in 83.4% performance vs. the 85% target. • the 18 week target for admitted patient (90% target vs. 84.6% performance). • ED four hour waiting time (95% target vs. 94.2% performance). The Care Quality Commission's visit on 16 March identified issues with the ED area which were dealt with to their satisfaction by their return visit on 4 May 2012.
Use of Resources	We concluded that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our VfM opinion was informed by our: • structured risk based assessment of the Trust's general VfM arrangements; • follow up work on the Trust's Governance arrangements and recommendations made in 2010/11; • follow up of our CIPS review and recommendations made in 2010/11; and • data quality and indicator testing, in respect of your Quality Account.
Financial Statements including the Annual Governance Statement	We issued an unqualified opinion on the Trust's accounts on 8 June 2012. 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. We confirmed that the Trust had complied with its regularity requirements that in all material respects its expenditure and income have been applied to the purposes intended by Parliament. Of the audit differences identified, three remained unadjusted. Of these, one related to the Trust's Road Traffic Accident provision, one related to aged creditor balances, and one to the overstatement of creditors and prepayments. None of the unadjusted differences had a material impact on our opinion. We identified a number of presentational and disclosure issues during our audit and the Trust had amended all of these. We also confirmed that the Trust had complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement.

Headlines (cont.)

Recommendations	The Trust has been effective at implementing agreed audit recommendations from prior years. Of the eight recommendations made in 2010/11, The Trust had fully implemented or superseded all of them, There were six new recommendations arising from our 2011/12 audit work, one of which we assessed as high risk. These aim to help the Trust, and are summarised in Appendix A.
Whole of Government Accounts	We issued an unqualified Group Audit Assurance Certificate to the National Audit Office on 8 June 2012 regarding the Whole of Government accounts submission. We were required to report any inconsistencies greater than £250,000 between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions. We provided details of the two exceptions above the de minimis limit our ISA260 report based on the latest information available on variances from the DH. We reviewed all balances as part of our audit work to confirm agreement on both sides. The Trust confirmed that it expected that changes to the next iteration of balance information would element these inconsistencies greater than £250k.
Quality Accounts	The Trust achieved the desired output from our work, namely a limited assurance opinion on compliance with the Quality Accounts. The three indicators tested were: • Mandated indicator one: 62 day maximum wait from urgent referral to first treatment for cancer • Mandated indicator two: Rate of patient safety incidents and percentage resulting in severe harm or death • Local indicator: Use of the WHO Theatre checklist
Public Interest Reporting	We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. We did not issue any public interest reports in the year.

Key recommendations

Key Recommendations raised in 2011/12

No.	Risk	Issue, Impact and Recommendation	Management Response / Responsible Officer / Due Date
1	❶	**Strengthening financial resilience** In the 2011/12 financial year, the Trust under-achieved against its Cost Improvement Plans by £13.1m, however additional income received in the year and further stabilisation measures resulted in a year end surplus of £88,000. The Trust's Annual Plan for 2012/13 forecasts a breakeven position, against a year on year increase of 0.4% in both income and expenditure. This includes CIPs savings of £32m (4.4% of planned turnover), of which £19m are pay related. Key to pay CIPs, transformational development, and expenditure control, is the embedding of detailed, long term, workforce management plans. The Trust should use its CBU operational plans submitted as part of the annual business planning process to ensure that on a continuous basis its workforce models are reviewed and refined to: • Identify planning opportunities for further efficiencies; • Develop a tool to incorporate alternative scenarios for a range of possible conditions; and • Provide a monitoring tool against which progress can be assessed. This will enable the Trust to maintain tight control over this critical area, whilst ensuring activity and capacity levels are managed effectively and safely.	The Trust has recently established a Transformational Support Office (TSO) which will embed and monitor transformational projects within the Trust. The TSO has already reviewed, and risk assessed, the Trust's 2012/13 CIP plans of which some are transformational. The delivery of its CIP plans is key to the Trust delivering its 2012/13 Plan. The methodology and tracker established in the TSO will be used by the Divisions and the Executive Committee to continuously monitor performance and identify opportunities for further efficiencies. The TSO will continue to support the Transformation Director and the Trust in developing major transformational schemes. The Trust is developing long term workforce plans in line with its FT application. A key element of the Trust's ongoing planning work is to align capacity and workforce planning with activity demand. The Trust is planning to produce its Integrated Business Plan and Long Term Financial Model by the end of October 2012 and these will provide a framework for linking CIPs, transformation, capacity and workforce planning over the medium term.
2	❷	**Deferred income** The Trust undertook a review of its deferred income balances during the current financial year, the result of which was a release of £4.2m income. There remains a significant balance of deferred income (£7.7m), and the Trust intends to conduct a further review of R&D deferrals in 2012/13 . The Trust should ensure this review takes place as soon as possible, and that appropriate processes and controls are put in place to ensure the correct treatment of all current and future balances. All deferred income balances should be supported by sufficient and appropriate audit evidence. This will enable the Trust to provide detailed accounts upon request, and improved local financial management.	The Trust has an R&D project plan for 2012/13 which will ensure the correct treatment of all current and future deferred income balances. This plan also includes the preparation of expenditure plans and budgets for income required across future financial years, and agreement of these with lead researchers. The Trust will ensure that all deferred income balances are supported by sufficient and appropriate audit evidence. **Responsible Officer: Simon Sheppard – Assistant Director of Finance** **Due Date: 30 September 2012**

Key:

High Risk ❶ *Medium Risk* ❷ *Low Risk* ❸

Key recommendations

We also raised a number of low risk recommendations, the key messages of which are shown below:

Segmental reporting

IFRS 8 requires disclosure of significant operating segments. Although the standard uses revenue as the principal measure for identification of significant operating segments, the Department of Health NHS Manual for Accounts states that operating segments can be reported by reference to operating expenses of the Trust.

The Trust has reported one segment in its 2011/12 accounts. The Trust should continue to review its approach to segmental reporting during 2012/13, ensuring the approach is reasonable and takes into consideration all DH guidance.

Year-end accounts procedures

1) Stock methodology

The Trust needs to establish a methodology for calculating stock from all areas that ensures accurate balances are made and supported by sufficient and appropriate audit evidence.

2) Whole of Government Accounts (WGA)

The Trust should review its process for identifying all transactions and balances with all participants in the WGA exercise, including when new codes and suppliers are established.

3) Negative debtor and creditor balances

The Trust should ensure that all debtor and creditor balances are shown gross within the accounts.

Aged debtors and creditor balances

The Trust should undertake a thorough review of its aged debtor and creditor balances, and write-off all those for which there is reasonable evidence that no income will be forthcoming (debtors), or that the Trust will be required to pay the outstanding balance (creditors).

Purchase ledger payroll payments

The Trust should ensure that all payroll expenditure is paid through the payroll system including such items as honoriums and a variety of out-of-pocket expenses.

Summary of reports issued

2012

January, February, March, April, May, June, July, August, September, October, November, December

Refreshed Audit Plan (February 2012)	The Audit Plan set out our approach to the audit of the Trust's Use of Resources and Financial Statements (including the Governance Statement).
Audit Progress Report (February 2012)	This detailed our work completed to date and planned over the next period, as well as technical updates to support the Trust's financial statement planning and preparation, and wider knowledge sharing on key NHS developments.
Audit Progress Report (April 2012)	This detailed our work completed to date and planned over the next period, as well as technical updates to support the Trust's financial statement planning and preparation, and wider knowledge sharing on key NHS developments.
Audit Report (June 2012)	The Audit Report provides our audit opinion for the year, the Value for Money conclusion, and our Audit Certificate.
Audit Highlights Memorandum (June 2012)	The Audit Highlights Memorandum provides details of the results of our audit for 2011/12 including key issues and recommendations raised as a result of our observations. We also provided the mandatory ISA260 declarations as part of this report.
Audit Progress Report (September 2012)	This detailed our work completed to date and planned over the next period, as well as technical updates to support the Trust's financial statement planning and preparation, and wider knowledge sharing on key NHS developments.
Annual Audit Letter (October 2012)	This Annual Audit Letter provides a summary of the results of our audit for 2011/12.
Audit Progress Report (November 2012)	This detailed our work completed to date and planned over the next period, as well as technical updates to support the Trust's financial statement planning and preparation, and wider knowledge sharing on key NHS developments.

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