The Mid Yorkshire Hospitals NHS Trust

Annual Audit Letter 2010-11

6 September 2011

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Appendices

1. Executive summary

Purpose of this letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at The Mid Yorkshire Hospitals NHS Trust ('the Trust') during our 2010-11 audit. The Letter is designed to communicate our key messages to the Trust and external stakeholders, including members of the public. The Letter will be published on the Trust's website.

What this Letter covers

This Letter covers our 2010-11 audit, including key messages and conclusions from our work in:

- auditing the 2010-11 accounts (Section 2)
- assessing the Trust's arrangements for securing economy, efficiency and effectiveness to ensure value for money is achieved (Section 3), including:
  - reviewing the Trust's reference cost data quality (Section 4)
  - reviewing the Trust's Quality Accounts (Section 5).

Responsibilities of the external auditors and the Trust

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Trust's key risks when reaching our conclusions under the Code.

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 have considered how the Trust is fulfilling these responsibilities.

Our main audit conclusions for the year

The 2010-11 accounts give a true and fair view of Trust's financial affairs and of the income and expenditure recorded by the Trust.

The Trust has adequate arrangements in place for securing economy, efficiency and effectiveness except for the fact that the Trust is dependent upon future financial support to achieve breakeven that has not yet been agreed with the local health economy.

Background

The Trust operates from three principal sites with a number of services duplicated across locations and some instances of differing practices across sites. The two new PFI hospitals at Pinderfields and Pontefract were seen as the catalyst for resolving some of the historic issues facing the Trust but have faced a number of teething problems in relation to capacity, utilisation and integration.

The Trust has managed to break-even in recent years, albeit it has been dependent on non-recurrent measures. In 2010-11, the Trust delivered a break-even position after negotiating full payment for healthcare delivered, receipt of £21m PFI funding support to cover PFI related expenditure and a high proportion of non-recurrent cost improvements.

The Trust recognises that non-recurrent measures are not sustainable in the medium to long term. A review of reconfiguration of services is currently being performed by external consultants, Finnamore, with proposals arising from the review likely to go out to public consultation in the Autumn.

The Trust's financial position

The uncertainty of the Trust's future financial position required additional disclosure in the notes to the annual accounts and resulted in qualification of the Value for Money (VfM) conclusion.

The Trust's Long Term Financial Plan (LTFP) needs refreshing to reflect the current financial position and the income, expenditure and cashflow challenges faced by the Trust. We understand the Trust intends to update the LTFP once the new clinical services strategy has been agreed following the public consultation, however, there is a need to update the LTFP in advance of the new strategy given the scale of the financial challenge faced by the Trust.

The Trust has highlighted a £44m gap in the 2011-12 budget. The Trust, in tripartite discussions with the Strategic Health Authority and commissioners, considers the maximum level of savings that it could deliver, without impacting on quality of service and patient care, is £30m. The Trust has therefore requested additional funding support from its key commissioners and the SHA. There is an expectation that the support will be received by the Trust but nothing has been formally agreed at the time of producing this Letter.

In order to deliver a breakeven position in 2011-12 the Trust needs to:

- deliver a £30m Cost Improvement Programme (CIP)
- achieve the budgeted level of income
- mitigate other key risks facing the Trust
- secure the £14m additional support requested from the local health economy.

Delivery of the £30m CIP

In previous years the Trust has delivered significant cost savings in order to achieve a breakeven position. However, the Trust's monitoring and reporting of CIP delivery has been limited in the past and there is a need for the Trust to ensure that comprehensive oversight, reporting and challenge of the CIP is performed in 2011-12.

Delivery of 2011-12 CIP savings is behind profile at the end of July, with a projected £3.2m gap at the year-end. The Trust is continuing to make a number of premium payments on Waiting List Initiatives, use of locums and bank and agency staff. The Trust is exploring a number of options to bridge the gap, but is already delivering a significant proportion of non-recurrent savings and the scope to make one off savings is diminishing each year given the tight financial settlement in the NHS.

The potential impact of the CIP on clinical performance should also be monitored. Currently, 18 weeks (admitted) and 4 hour A&E targets are not being achieved and current trajectory on MRSA performance suggests not exceeding the target number of annual cases will be challenging.

Any slippage on clinical performance could increase the level of oversight of the Trust by the external regulator, Care Quality Commission (CQC). Adverse reporting by the CQC could have implications for the Trust's foundation trust application if, under Monitor's governance risk rating, the Trust's clinical performance would result in a 'red' governance rating.

Achieving budgeted income

The Trust is £0.8m behind planned income at the end of July 2011. There are a number of risks to achieving budgeted income including financial penalties that may arise due to the Trust's service performance, such as the impact of the readmission penalty.

The Trust has calculated that the readmission penalty could be in the region of £5m. The Trust is in discussion with commissioners about suspending the penalty to support improved service delivery going forward.

There are also income risks arising from the impact of the 'first to follow up ratio', possibly of up to £1m, and potential CQUIN funding implications arising from the Trust's current trajectories on key clinical performance indicators. In addition, an implication of seeking to achieve the 18 week key performance target, and reduce the backlog of cases, is outsourcing above expected levels to the independent sector. This effectively results in additional costs for the Trust.

Mitigating other risks

There are a number of other risks facing the Trust that may impact on the Trust's ability to deliver a statutory breakeven position in 2011-12. There are possible settlements in respect of a number of provisions and contingent liabilities, including Equal Pay claims and a significant Employment Tribunal.

The Trust has recently produced a revised cashflow forecast for 2011-12. The forecast assumes receipt of £14m additional support and an amount to be settled in respect of the Employment Tribunal. The forecast notes the Trust could be in a negative liquidity position by December 2011 and have an overdrawn cash position of £8.2m at the year-end. The Trust is exploring a number of options to address this liquidity risk, including withholding expenditure on the capital programme and accessing borrowing from the Department of Health.

Securing £14m additional support

The Trust forecasts that it will be dependent on securing £14m additional funding support from within the local heath economy.

The £14m support comprises suspension of the £5m readmissions penalty (referred to earlier) and £9m residual funding to deal with other issues, including the impact of payment of the PFI unitary charge, which is increasing in line with inflation at a time when tariff income is reducing. There is an expectation at the Trust that if the £30m CIP programme is delivered, the local health economy will provide the £14m support.

The latest financial report to the Board (July 2011) shows a deficit of £3.5m with a projected year-end position of breakeven. This outturn assumes the Trust accounts in full for receipt of the £14m in 2011-12. At the time of this Letter key external stakeholders have not agreed to provide £14m although the matter is being actively discussed with stakeholders at the Trust's 'Foundation Trust Health Economy Programme Board'.

Given the lack of agreement, the risk of non receipt of the additional funding is a cause for concern which is heightened by the risks the Trust has highlighted regarding the likelihood of delivering the CIP in full.

Key areas for Trust action

We highlight the following key areas where the Trust should take action to improve arrangements in 2011-12:

- ensuring robust short term financial planning for 2011-12, including:
  - enhancing monitoring CIP delivery against the £30m target, taking action to bridge any variance whilst ensuring clinical performance is maintained - the developing role of the Finance and Service Recovery Board will be key to achieving this
  - taking action to resolve the liquidity concerns highlighted in the Trust's revised cash-flow forecasting to prevent failing the External Financing Limit statutory target.
- urgently resolving whether £14m additional support will be provided by the local health economy or, if the support is not forthcoming at this level, instigating a 'Plan B' option to deliver 2011-12 breakeven in the short-term and longer term financial sustainability
- updating the Long Term Financial Plan (LTFP) to reflect the income and expenditure risks and revised cashflow forecast highlighted in the Letter. The LTFP should be updated before completion of the new Clinical Strategy given that full year benefits from service configuration are not likely to arise before 2013-14
- delivering benefits from the integration of services recently transferred to the Trust under Transforming Community Services.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A. Recommendations have been raised within the reports listed and the Trust should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010-11.

Acknowledgements

This Letter has been agreed with the Chief Executive and Interim Director of Finance and will be presented to the Audit Committee on 8 September 2011.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff.

Grant Thornton UK LLP

6 September 2011

2. Audit of the accounts

Introduction

We issued an unqualified opinion on the Trust's 2010-11 accounts on 9 June 2011, meeting the deadline set by the Department of Health (DoH). Our opinion confirms that the accounts give a true and fair view of Trust's financial affairs and of the income and expenditure recorded by the Trust.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Trust). We presented our Annual Report to those Charged with Governance to the Audit Committee on 25 May and summarise only the key messages in this Letter.

The Trust has a good process of reporting accounting issues to the Audit Committee throughout the year and has an embedded accounts closedown process in place. The Trust submitted draft accounts and working papers to us in advance of the national deadline. Overall, the audit process progressed well against a very challenging timetable. The attendance of the Chair of Audit Committee at the accounts clearance meetings was helpful in dealing with issues arising and in our view is good practice, as is early consideration of technical accounting matters by the Audit Committee.

The working papers provided in both electronic and paper form were, in the majority of areas, of a good standard.

However, we recommended the Trust ensures that corroboration and supporting working papers for key areas of estimate and judgement, including provisions, accruals and the PFI contract, are sufficiently robust and are made available for audit review on a timely basis. We do acknowledge the Trust was dependent on external advice in these complex areas which was subject to amendment and revision throughout the audit fieldwork.

Outcome of the accounts audit

Our audit identified a number of adjustments to the financial statements which were not processed by the Trust. The overall net effect, if these adjustments had been processed, was an increase to the Trust's reported surplus of £522k. If the unprocessed adjustments from the prior year are also taken into account, the Trust's reported surplus would have increased from £1m to £1.2m.

These adjustments relate to key areas of estimate and judgement, including:

- calculation of the Trust's best estimate of provisions and contingent liabilities, particularly in respect of the Employment Tribunal and employee related future liabilities
- calculation of accruals in relation to a number of areas of estimate, including costs associated with Waiting List Initiatives, independent sector treatments and estates.

We received formal representation from the Trust's Board that no adjustments were necessary to the accounts, as their net effect was not considered to be material in relation to the Trust's overall reported financial position. We agreed with the Board's decision not to adjust on these grounds.

Performance against statutory targets

The Trust achieved all of its statutory targets for the year as set out in Table 1, including delivering a surplus position of £1m.

Table 1: Performance against statutory targets

	Target	Actual	Met?
Surplus/(Deficit)*	Break even or better	983k	✔
Capital Cost Absorption Duty	3.5%	3.5%	✔
Capital Resource Limit	Not over 311,768k	292,170k	✔
External Financing Limit	Not over 25,460k	9,338k	✔

* The Trust reported an in year deficit of £59,654k. The reported statutory break-even surplus is achieved after making adjustments for items charged through the Statement of Comprehensive Income that the DoH has determined do not impact on the statutory break-even.

Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work was in three main areas:

- review of key financial controls for the purpose of designing our programme of work for the accounts audit
- assessment of the work of internal audit to ensure that it was appropriate to support our work in auditing the Trust's 2010-11 accounts
- high level review of the general IT control environment.

Our work did not identify any control issues that present a material risk to the accuracy of the accounts.

The Trust's financial position

We discussed the Trust's financial position with the Board and agreed that additional disclosures should be included in the accounts and annual report highlighting the Trust's reliance on further transitional support from the local health economy to achieve statutory breakeven 2011-12.

The 2011-12 NHS Operating Framework calls for £20 billion in efficiency savings between 2011-12 and 2014-15. This Quality, Innovation, Productivity and Prevention (QIPP) challenge is supported by trusts' individual CIPs.

As noted in the Executive Summary, the Trust recognises the importance of meeting its financial targets for 2011-12 and the challenges it faces to achieve them. As at the end of July, the Trust was reporting a deficit of £3.5m at the end of the first four months but projecting a year-end break-even position (on the assumption the £14m required support will be received).

The Trust's CIP programme is also behind target with only £4.9m achieved at the end of July 2011 against a planned CIP target of £7.6m. Only £26.8m of the required £30m CIP is currently 'green' rated and deemed to be deliverable in 2011-12. The Trust is continuing to make a number of premium payments in 2011-12 on Waiting List Initiatives, independent sector treatment, locums and bank and agency staff, although we understand there was a reduction in spend in these areas in July compared to the first three months of 2011-12.

The Trust is exploring a number of options in order to identify and deliver the unallocated £3.2m CIP and make good the shortfall from the first four months of 2011-12. The Trust's ability to achieve the £30m CIP in full is deemed critical by the local health economy to the likelihood of making available the £14m required support.

We comment further on the Trust's financial position in section 3 of this Letter.

Statement on Internal Control and Annual Report

We examined the Trust's arrangements and process for compiling the Statement on Internal Control (SIC) and considered whether the SIC is in accordance with our knowledge of the Trust.

We also reviewed the draft Annual Report to confirm that this was consistent with our knowledge and that the summary financial information presented was consistent with the audited financial information. We made some suggestions, mainly to bring the document more in line with Monitor's requirements in preparation of the Trust's progress to FT status, which we are pleased to report the Trust acted upon. The Trust produced a very informative and easy to read Annual Report.

The Trust's Audit Committee and Board meetings to approve the accounts, SIC and Annual Report were one day apart, and two weeks in advance of the statutory deadline. These documents, particularly the SIC, were subject to a number of amendments between these meetings and conclusion of the audit on 9 June. These amendments arose from a combination of changes proposed following our review and additional disclosures made by the Trust late in the process.

The Trust should review the timetable for preparation and approval of the SIC and Annual Report, and the scheduling of the Audit Committee and Board meetings to approve the accounts.

We concluded that the final version of the SIC and Annual Report were consistent with our knowledge of the Trust, following the proposed adjustments, which management incorporated into the final versions of the documents.

Summary of key recommendations

Key recommendations arising from our accounts work are for the Trust to:

- enhance the extent of monitoring of the planned delivery of the CIP, clearly setting out in Board reports actual CIP achievement to date, expected achievement at the year-end, and clear actions to make up any identified shortfall in delivery
- review the procedures in place for considering the basis for accruals, reviewing balances within accruals on a regular basis to ensure accuracy of the management accounts and year-end accounts
- use the 'decision tree' within the Accounting Standard for provisions and contingent liabilities to determine the appropriate accounting treatment for future liabilities, ensuring the basis of the decision and quantification of provisions and contingent liabilities is fully documented
- consider rescheduling the Audit Committee and Board meetings to approve the accounts in order to allow for full consideration of the SIC and other governance matters.

3. Value for money

Introduction

The Code describes the Trust's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a Value for Money (VfM) conclusion based on the following two criteria specified by the Audit Commission:

- the Trust has proper arrangements in place for securing financial resilience
- the Trust has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Key conclusions

We issued a qualified VfM conclusion on 9 June 2011, at the same time as our accounts opinion, meeting the deadline set by the Department of Health.

We concluded that for 2010-11, the Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011, except for the fact that the Trust is dependent upon future financial support to achieve statutory breakeven in 2011-12.

At the time of forming our conclusion, the Trust was in discussions with stakeholders within the local health economy relating to the provision of such support but those discussions had not concluded. As at the time of producing this Letter, these discussions are still to be finalised.

By way of context, it should be noted that almost one in four (24%) of NHS trusts received a qualified VfM conclusion in 2010-11.

Financial resilience summary findings

The Trust's financial position over the medium term remains extremely challenging as it seeks to remain in financial balance whilst facing significant cost pressures impacting across the NHS, the challenge of achieving foundation trust status, and at the same time ensuring quality of clinical performance.

Potential cost pressures arising from an ageing population and increasing staff and drug costs, combined with a reduction in tariff income and increased service quality expectations, pose a risk to long term financial sustainability of many NHS bodies.

This has led to a requirement for an increased level of efficiency savings for NHS bodies through significant CIP to ensure financial resilience.

The Trust has an overall savings requirement for 2011-12 of some £44m of which the Trust is targeting to deliver a CIP of £30m. It is recognised within the local health economy that transitional support of up to £14m will be required to bridge the funding gap.

The Trust may also require additional support to deal with the settlement of significant provisions, including an Employment Tribunal (a decision is expected in the Autumn on the monetary award to be made available to the claimant) and Equal Pay claims.

The Trust's 2011-12 cashflow projection has recently been updated to take account of the potential impact of settling these provisions. The revised cashflow projection notes that the Trust could have a negative liquidity position by December 2011 and could breach the External Financing Limit statutory target by the year-end unless mitigating procedures are put in place, including withholding capital schemes or seeking borrowing from the Department of Health.

There is a clear need to update the Trust's Long Term Financial Plan (LTFP) in light of the cashflow and breakeven risks facing the Trust's financial position.

In addition, there are a number of uncertainties within the Trust's future financial planning until the revised configuration of services is determined, following the Finnamore review and results of the public consultation. There is also the impact of assimilating services under the Transforming Community Services (TCS) agenda. These uncertainties are exacerbated by the changes in commissioning created by NHS reorganisation referred to elsewhere in this letter.

The Trust has taken on over £30m of Community Services from 1 April 2011, under the TCS agenda, and has increased the turnover of the Trust accordingly. Whilst this increases the financial risk within the CIP requirement it does give the Trust the opportunity to improve pathway management and productivity in the medium and long term.

The Trust has formed a Finance & Services Recovery Board to oversee the process of delivering financial efficiencies of the CIP and service and workforce transformation processes.

The Trust is also in active discussions with key external stakeholders, including NHS Yorkshire and Humber and the local health economy, via the Trust's 'Foundation Trust Health Economy Programme Board', to secure the appropriate additional financial support and the facilitate the Trust's progress to foundation trust status.

The Trust needs to ensure that clinical performance is maintained despite the impact of the financial challenges. The level of complaints at the Trust in 2011-12 to date has increased by 50% on the equivalent period in 2010-11. A sample of the most recent clinical performance information (to the end of July 2011) notes the following:

Performance indicator	Target	Current	Comment
18 weeks (admitted)	90%	73.5%	Currently not meeting target; action plan in place
18 weeks (non-admitted)	95%	94.7%	Broadly on track
4 hour A&E	95%	92.3%	Currently not meeting target; action plan in place
62 day cancer target	85%	92.1%	On track
MRSA	7 cases annually	5 cases to date	Not on track - over half of target cases in first 4 months

Challenging VfM

Additional VfM project reviews
During the course of the year we undertook two risk based projects to inform this aspect of our VfM conclusion.

Firstly, we undertook a review of Service Level Agreement (SLA) income optimisation.

There was a dispute during the year between the Trust and the PCTs relating to income for paediatric HDU single occupancy activity where a verbal agreement between the parties had not been reflected in the final signed SLA. We therefore performed a review of the SLA process.

During the course of our review, we identified some areas for improvement in the various stages of the existing SLA process, and made recommendations for the Trust to:

- strengthen the relationship with the commissioning PCTs to ensure timely SLA negotiations lead to a signed SLA before commencement of the respective financial year
- ensure continuity in the annual SLA leadership from the Trust
- have a dedicated SLA resource within the Trust to liaise with Commissioning PCTs and understand the monthly activity movements and the financial consequences
- improve the completeness and speed of 'SLAM' management information month end closure.

Our second review was a follow up of the 'Review of the Finance Department' undertaken last year. This review focused on financial reporting to the Board; robust cashflow forecasting, and modelling for the future.

Although we identified examples of good practice within these areas we also made several recommendations to strengthen the quality and robustness of these functions. These included a review of the relevance and timeliness of financial information reported to the Board, flexing budgets to ensure the forecast outturn remains accurate during the year, and introducing a 12 month rolling cashflow forecast.

There are some examples of good VfM performance at the Trust. Following our key recommendation from last year, we are pleased to report the Trust is actively managing its PFI contract to ensure the Trust receives a level of service that it is entitled to under the requirements of the PFI agreement.

Our overall conclusion was that the Trust has proper arrangements for challenging how it secures economy, efficiency and effectiveness but there were some areas (referred to above) where improvement should be made. We will follow up progress in implementing the agreed action plans as part of our 2011-12 audit.

Summary of key recommendations

High priority recommendations arising from our use of resources work are to:

- continue effective monitoring of the PFI contract ensuring the Trust is receiving a high quality service from the contractor under the terms of the contract
- monitor the impact of the settlement of significant provisions on the Trust's financial position by performing sensitivity analysis on cashflow and breakeven forecasting
- respond to the Finnamore review and update the Long Term Financial Plan in light of the income, expenditure and cashflow risks facing the Trust in 2011-12
- continue to take action to address the clinical performance issues as at July 2011 in order that improvements are made as soon as possible.

Other work performed

Other audit work performed in 2010-11 included:

- hosting a workshop to discuss the governance and financial implications arising from the Transforming Community Services (TCS) transfer of services
- a review of the proposed accounting for a future pathology lease. This transaction has been delayed due to issues highlighted with the procurement process which the Trust is currently addressing
- numerous liaison meetings with Board members and senior management to ensure regular discussion of key Trust accounting, governance and strategic matters throughout the year.

Approach to local VfM work 2011-12

At time of writing there are no changes proposed to the approach to local VfM work in 2011-12. We will focus on the two key reporting criteria, namely:

- the Trust has proper arrangements in place for securing financial resilience
- the Trust has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will determine a local programme of VfM audit work based on our audit risk assessment, informed by the criteria above, our statutory responsibilities, and follow up of the key recommendations arising from 2010-11.

4. Payment by Results (PbR) - reference costs

Introduction

In 2008-09 DoH asked the Audit Commission to review the quality of reference costs from a sample of 16 NHS organisations (15 acute trusts and one PCT). Because of the review findings, DoH recommended the Audit Commission, as part of its PbR data assurance framework, deliver a programme of reference cost data quality reviews at all acute NHS trusts and foundation trusts in 2010-11.

We were commissioned to perform a review of the Trust's reference cost data. The scope of our review was to form a view on the data quality and therefore accuracy of the 2009-10 reference cost data and identify issues and areas where action could be taken to improve the quality of reference cost submission data.

Main Conclusion

Based on the work we performed, we found the Trust's reference cost submission in 2009-10 to be materially accurate overall. However, there were opportunities for the Trust to further enhance the overall arrangements in place to improve the accuracy of future submissions.

Summary of key recommendations

The key actions for the Trust included:

- consider developing and monitoring formal reference cost data quality improvement action plans where appropriate
- increase the use of external benchmarking of reference cost information, particularly unit costs
- review and improve the timeliness of data submission from specialties where the previous years' data was relied upon.

5. Quality Accounts

Introduction

In 2010-11 the Audit Commission mandated that we carry out work on the Trust's Quality Account.

We examined the management arrangements the Trust has in place to secure data quality and tested two of the Trust's mandated performance indicators:

- MRSA
- maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers.

We also reviewed the content of the Quality Account and provided feedback.

Summary of assessment

Management arrangements

Theme	Outturn	Assessment
Governance	Green	None or only minor deficiencies
Systems and processes	Amber	Some deficiencies
Quality accounts reporting	Green	None or only minor deficiencies

Performance indicators

Indicator	Outturn	Assessment
MRSA	Amber	Some deficiencies
Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers	Green	None or only minor deficiencies

Our review noted that the Trust had put in place good management arrangements to compile the Quality Account, with strong adherence to the best practice guidance set out in the DoH Quality Account Toolkit.

If these arrangements were maintained in 2011-12, the Trust should be able to achieve a 'limited assurance' opinion on the arrangements for the preparation of the Quality Account, although action will be required to strengthen some aspects of the systems and processes in place to produce the two mandated performance indicators.

Summary of key recommendations

The key matters for the Trust to address are:

- strengthening the Quality Account to include clearer explanations of whether outcomes against priorities were 'achieved' or 'not achieved'
- increasing the use of graphs, national benchmarked information and the Trust's past, present and targeted future performance against national indicators
- ensuring that microbiology test results are appropriately filed in patient case notes, for the MRSA indicator, either electronically on Win DIP system or in hard form within the paper case note file.

Looking forward

We were not required to provide an opinion on the Trust's Quality Accounts in 2010-11. However from 2011-12, subject to the outcome of the 2010-11 'dry-run' exercise and the requirements of the Department of Health, the Audit Commission proposes aligning the external assurance approach for NHS trusts more closely with Monitor's approach for foundation trusts, which for 2010-11 required auditors to provide a limited assurance conclusion on the consistency of the content of the Quality Account and report on their testing of three performance indicators.

6. Future developments impacting on the Trust

Forthcoming changes in healthcare

The Health and Social Care Bill introduced in January 2011, and the subsequent 'listening exercise' in June 2011, are leading to significant changes across the health sector. The Bill contains provisions covering five main themes:

- strengthening commissioning of NHS services
- increasing democratic accountability
- liberating provision of NHS services
- strengthening public health services, with responsibility returning to councils
- reforming health and care arms length bodies.

By October 2011 it is anticipated that the NHS Commissioning Board will be in place in shadow form, and that SHA cluster arrangements will be in place. In 2012 the choice of 'Any Qualified Provider' will be phased in gradually, Clinical Commissioning Groups (CCGs) will begin to be established and authorised, and the NHS Trust Development Authority will be established in shadow form. By April 2013 all CCGs should be established, SHAs and PCTs will be abolished and the NHS Commissioning Board will take on its full functions, including commissioning on behalf of CCGs that are not yet ready or willing to do so.

It is important that the Trust continues to build strong relationships with emerging CCGs and the NHS Trust Development Authority and to be able to identify and respond effectively to all risks and opportunities that will emerge as a result of these changes.

Foundation Trust authorisation

The Coalition Government's expectation is that any remaining NHS Trusts will be authorised as foundation trusts by April 2014, or as soon thereafter as clinically feasible. If any trust is not ready by April 2014, it will continue to work towards FT status, supported by the NHS Trust Development Authority.

The Trust, in conjunction with other key external stakeholders including commissioners, the SHA, DoH and GP representatives, has set up the 'Health Economy Foundation Trust Board'. This Board is overseeing the Trust's roadmap to authorisation as an FT and exploring options to be taken to mitigate risks and threats to the Trust's chances of being authorised as an FT.

At the time of this Letter the Trust is in discussions with the DoH and local health economy in relation to progressing its FT application. We welcome the expected substantive appointments to the posts of Director of Finance and Director of Human Resources which should increase the stability of the Board to progress the foundation trust application.

It is noted that the Trust's clinical and financial performance at the end of September 2011 will be a key factor in whether the Trust can move forward with its target of a successful application to the Secretary of State by December 2012. We will continue to monitor the Trust's application as part of our 2011-12 audit.

Appendices

A. Reports issued

Report	Date Issued
Audit Fee Letter	April 2010
Accounts Audit Plan	December 2010
Finance Department Review follow up	December 2010
Interim Report to those Charged with Governance	March 2011
Reference Costs Payment by Results Audit	March 2011
Annual Report to those Charged with Governance (ISA 260)	May 2011
Review of Service Level Agreement Income Optimisation	June 2011
Quality Accounts Report	June 2011
Annual Audit Letter	September 2011

B. Audit fees

The table below summarises the planned and actual audit fees charged to the Trust during 2010-11. We did not perform any non-Code audit work in 2010-11.

Audit area	Budget 2010-11	Actual 2010-11
Accounts	102,500	102,500
Value for Money conclusion	63,750	63,750
Quality Accounts	15,000	15,000
Total Code of Practice fee	**181,250**	**181,250**

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