



INFRASTRUCTURE, GOVERNMENT AND  
HEALTHCARE

## External Audit: Annual Audit Letter 2006-07

Ashford and St.Peter's Hospital  
NHS Trust

30 August 2007

AUDIT

# Content

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This report is addressed to 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 which is available on the Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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 Greg McIntosh, who is the engagement director to the Trust, telephone 0207 311 6496, email greg.mcintosh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is 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. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 020 7630 3131, textphone (minicom) 020 7630 0421. Their website is [www.audit-commission.gov.uk/aboutus/contactus](http://www.audit-commission.gov.uk/aboutus/contactus)

# Key messages and purpose of this letter

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## Key messages

The purpose of this Annual Audit Letter (the letter) is to summarise the key issues arising from the work that we have carried out during 2006-07 at Ashford & St.Peters' Hospitals NHS Trust. We highlight both areas of good performance and provide recommendations to support areas where you could improve performance. A summary of our key recommendations, drawn from our reports this year, is summarised in Appendix 1. The issues summarised in this letter have previously been reported to you and a list of all reports issued to you in relation to the 2006-07 audit is provided in Appendix 2.

There are a couple of risks facing the Trust which we wish to draw out:

- *Financial standing*: Financial standing continues to be a key issue in 2007/08 as the Trust is planning for a surplus of £2,450,000, whilst looking to make £5,697,000 of savings in year. Financial performance to date appears to be in line with the turnaround plan for 2007/08.
- *Proposed merger*: the Trust may be merging with Frimley Park Foundation Trust in April 2008. The risk is that the operational performance of the Trust suffers both during the merger process and immediately post-merger. The potential risks and threats to the maintenance of services and internal control of the Trust are significant.

Although this letter is addressed to the directors of Ashford & St.Peters' Hospitals NHS Trust ('you'), it is also intended to communicate those key issues to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). It is the responsibility of the Trust to publish the letter on the Trust's website at [www.asph.nhs.uk](http://www.asph.nhs.uk).

## Responsibilities of the auditor and the Trust

We have been appointed by the Audit Commission as your independent external auditor.

The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies which is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). This summarises where the responsibilities of auditors begin and end and what is expected from you as the audited body. 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.

## The scope of our work

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*). Under the Code we are required to review and report on:

- the *use of resources* - that is whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources
- the *accounts* – that is the financial statements and the Statement on Internal Control.

This letter summarises the significant issues arising from both these areas of work and highlights the key areas we think you should address to improve performance in Appendix 1. The issues summarised in this letter have previously been reported to you and a list of all reports issued to you in relation to the 2006-07 audit is provided in Appendix 2.

## Key issues arising from use of resources work

The main elements of our use of resources work are:

- *Specific risk based work* - we perform specific local reviews based on a risk assessment of issues facing you. In 2006-07, these reviews included an assessment of your IT Governance arrangements.
- *Auditor's Local Evaluation (ALE)* - we are required to assess how well NHS bodies manage and use their financial resources by providing scored judgements on your arrangements in five specific areas.
- *Value for money conclusion* – in part based on the ALE assessment above, we are required to issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.
- *Work on behalf of the Healthcare Commission* - we are sometimes asked to perform specific work on behalf of the Healthcare Commission, the body responsible for promoting improvement in quality within the NHS through performance assessment. We have not performed any local improvement work in 2006-07.

The key findings from this work are summarised below.

Element of work	Key findings												
Specific risk based work	<p>We identified three risk areas for local review:</p> <ul style="list-style-type: none"> <li>• <i>Information Governance</i>: Information systems quality is good and the Trust has satisfactory Information Management and IM&amp;T governance arrangements in place, although Information and IM&amp;T Strategies have yet to be produced.</li> <li>• <i>Workforce</i>: The Trust revised its Workforce Strategy for the May 2007 Board and we will be reviewing the embeddedness of the Trust's revised Workforce Strategy in September 2007.</li> <li>• <i>Theatre efficiency</i>: The increase in theatre utilisation is one of the Trust's main projects in its turnaround plan. A new theatres manager has given the project momentum and the project delivered a significant amount of savings in 2006/07.</li> </ul>												
Auditors Local Evaluation	<p>Our assessment against the five nationally specified areas resulted in the following scores on a scale of one (inadequate) to four (excellent).</p> <table border="1"> <thead> <tr> <th>Area</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Financial reporting</td> <td>2</td> </tr> <tr> <td>Financial management</td> <td>2</td> </tr> <tr> <td>Financial standing</td> <td>1</td> </tr> <tr> <td>Internal control</td> <td>2</td> </tr> <tr> <td>Value for money</td> <td>3</td> </tr> </tbody> </table> <p>The key areas you need to improve to move up a score include the:</p> <ul style="list-style-type: none"> <li>• <b>financial standing</b>: sustained achievement of breakeven for three years, although the Trust made a significant improvement in 2006/07 and achieved a surplus of £1.068 million;</li> <li>• <b>financial reporting</b>: presentation of the annual report and, summary financial statements, to the auditor at the same time as the accounts, before the signing of the audit opinion.</li> <li>• <b>financial management</b>: regular updating of the fixed asset register and the production of a formal plan for equipment replacement.</li> <li>• <b>internal control</b>: review of the Trust's Risk Management Strategy and risk training for the Board which will be timely and valuable given the risks around the proposed merger.</li> </ul>	Area	Score	Financial reporting	2	Financial management	2	Financial standing	1	Internal control	2	Value for money	3
Area	Score												
Financial reporting	2												
Financial management	2												
Financial standing	1												
Internal control	2												
Value for money	3												
Value for money conclusion	<p>We issued an unqualified value for money conclusion for the 2006-07 year.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>												
Work on behalf of the Healthcare Commission	<p>We have not carried out any work on behalf of the Healthcare Commission in 2006-07.</p>												

Wherever we identified an area to improve performance as a result of this work, we communicated this to you as a recommendation. A summary of the most important recommendations raised, along with your response, has been provided at Appendix 1.

The Audit Commission is a signatory to the concordat between bodies inspecting, regulating and auditing healthcare. All recommendations from our use of resources work are loaded onto the concordat website at [www.concordat.org.uk](http://www.concordat.org.uk) and an annual update of progress against these plans will be provided to the Audit Committee.

## Key issues arising from the audit of the accounts

### Opinion

We issued an unqualified opinion on your accounts on 22 June 2007. This means that we believe the accounts give a true and fair view of the financial affairs of Ashford & St.Peters' Hospitals NHS Trust and of the income and expenditure recorded by the Trust during the year.

Before we give our opinion on the accounts, we are required to report to your Audit Committee any significant matters arising from the audit. We did this on 18 June 2007 and the key issues are summarised here.

### Accounts production and adjustments to the accounts

We received a good set of draft accounts on 1 May 2007, All disclosure notes were complete and the draft accounts were subject to some minor adjustments. However, the full Annual Report has yet to be produced for audit although this should have been produced alongside the accounts.

We identified only minor adjustments required to the accounts which you agreed to amend.

One material issue, a £3 million debtor with the Department of Health, was identified in the course of our audit and we have both asked for the existence of this debtor to be disclosed separately in the accounts and a management representation on the recoverability of the debtor. The Trust's Director of Finance is meeting with the SHA's Director of Finance on 3 September 2007 to resolve this issue.

### Financial Standing

NHS bodies are given financial targets every year. One of these, the breakeven duty, is statutory, which means you must achieve it. The others are administrative, which means you should achieve them. Your performance against the targets in 2006-07 is outlined below.

Target name	What it means	Your performance [✓/-]
In-year breakeven	Keeping expenditure payable for the year within the amount of income received for the year.	✓ You reported a surplus of £1.068 million.
Cumulative breakeven	As above, over a five year period. The Trust was granted an extension from three to five years to achieve its cumulative breakeven duty.	- You reported a cumulative deficit of £10.647 million. The anticipated financial year of recovery is 2011/12.
External Financing Limit	Keeping the requirement for cash financing within a limit set by the Strategic Health Authority	✓ You met the EFL of £696k.
Capital Resource Limit	Keeping net capital expenditure within a limit set by the Strategic Health Authority	✓ You remained within the CRL by £2.825 million.
Better Payment Practice Code	Paying at least 95% of creditors (by volume) within 30 days of receiving an invoice from them	- You reported paying 64.68% of non-NHS and 31.62% of NHS creditors within 30 days.

### Challenges in 2007-08

The Trust achieved a surplus of £1.068 million at the end of 2006-07 both through performing well in making £9.1 million of savings in year and through the profit £5.53 million from a land sale at the year end. Financial standing continues to be a key issue in 2007/08 as the Trust is planning for a surplus of £2,450,000, whilst looking to make £3.517 million of recurrent savings in year and £2.45 million from asset sales.

Financial performance to the end of June 2007 was reported to be £100k surplus but at the end of July the Trust was £340k in deficit due to the impact of a number of redundancy payments in the month. However, taking out the non-recurring items, which in budget terms are phased over the year rather than in one month, then performance is positive with a £30k surplus at the end of July 2007.

The forecast outturn for 2007/08 is a £2.5 million surplus but there are financial risks around this in terms of the Trust's continuing ability to make the planned savings and the PCT's capacity to manage demand away from secondary care.

## Appendix 1: Key recommendation themes

This appendix summarises the main recommendations that we have identified during the 2006-07 year, along with your response to them. The detail of the recommendations have been communicated to you during the year.

Performance Improvement Area	Trust's Management Response
<p><b>Sustainability of financial recovery in 2007/08</b></p> <p>Financial standing continues to be a key issue in 2007/08 as the Trust is planning for a surplus of £2,450,000 but there are financial risks around this in terms of the Trust's continuing ability to make the planned savings and the PCT's capacity to pay for any additional activity.</p>	<p>The Trust expects to make the planned surplus from the asset sale. The ongoing revenue costs are expected to be kept in a positive run rate, which will deliver the target.</p>
<p><b>Risks around the proposed merger and the maintenance of internal control</b></p> <p>The risk is that both the operational performance of the Trust and internal control suffers during the merger process and immediately post-merger. The potential risks and threats to the maintenance of services and financial management of the Trust are significant. It would be timely to review the Trust's Risk Management Strategy in strategic terms and provide risk training for the Board given the risks around the proposed merger.</p>	<p>The Board is aware of the risks associated with the proposed merger and will be careful to manage those risks and ensure the ASPH targets are met by monthly performance meetings with all Directorates.</p>
<p><b>Review of IT risk mitigation actions</b></p> <p>More formal and regular reviews of risk mitigation actions should reduce the overall level of risk around IT and IS systems that the Trust may be exposed to as these are currently not carried out on a regular basis.</p>	<p>Part of the due diligence of the proposed merger will require more formal review of risk mitigation actions to reduce the overall level of risk around IT and IS systems.</p>
<p><b>Improvements in fixed asset management processes and procedures</b></p> <p>Improvements are required in fixed asset management processes and procedures such as the regular updating of the fixed asset register and the production of a formal plan for equipment replacement.</p>	<p>Improvements to the fixed asset system will be made. Formal replacement programmes are being introduced where budget allows.</p>
<p><b>Timely production of the Trust's Annual Report</b></p> <p>In order to improve the Trust's external accountability, the production of the Trust's Annual Report should be more timely and in line with the timetable for the production of the annual accounts.</p>	<p>The Trust will produce the Annual Report in the last quarter of the current financial year to align with the annual accounts production and audit.</p>

**Appendix 2: Reports issued in relation to the 2006-07 audit**

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Report	Date issued
Audit Plan	19 June 2006
Theatre Efficiency Review	8 September 2006
Interim report and Auditor Local Evaluation (phase one)	3 April 2007
Information Governance Audit	16 May 2007
Audit Memorandum (to those charged with governance)	13 June 2007
Auditor Local Evaluation overall report	30 September 2007
Annual Audit Letter	19 August 2007