



Royal National Orthopaedic Hospital NHS Trust

Annual Audit Letter 2007/08

August 2008

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Purpose of this Letter and scope of our audit

The purpose of this Annual Audit Letter ('letter') is to summarise the key issues arising from the work that we have carried out during the year at Royal National Orthopaedic Hospital NHS Trust ('the Trust'). Although this letter is addressed to the directors of the Trust, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Trust's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

Responsibilities of the external auditors and the Trust

We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including NHS Trusts.

As the Trust's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas that involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives. It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Trust is fulfilling these responsibilities.

This report is part of a continuing dialogue between the Trust and ourselves and is not, therefore, intended to cover every matter which came to our attention. For this reason we do not accept responsibility for any reliance that third parties may place on it. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in your systems and work practices. The Board is asked to note that our audit should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist.

The scope of our work

Our main responsibility as your external auditors is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ('the Code'). Under the Code, we are required to review and report on:

- the Trust's accounts; and
- whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Trust. A list of all reports issued to the Trust in relation to the 2007/08 audit is provided at Appendix A, while Appendix B sets out our budgeted and actual fees for 2007/08.

The Healthcare Concordat

As representatives of the Audit Commission, we are members of the Healthcare Concordat. The Concordat is a voluntary agreement between organisations that regulate, audit, inspect or review elements of health and healthcare in England. The Concordat aims to ensure that the work of various organisations is co-ordinated and consolidated to promote efficiency and reduce duplication.

A key feature of this arrangement is that all recommendations made by audit and inspection bodies are consolidated on to the Concordat website. The website can then be used as a reference for Trusts. As part of this process all recommendations issued by Grant Thornton during the year will be updated on the Concordat website by 30 September 2008.

Key issues arising from the audit of the accounts

We issued an unqualified audit opinion on the Trust's accounts on 19 June 2008, in line with the deadline set by the Department of Health. Our opinion confirms that the accounts give a true and fair view of the 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 the Trust's Audit Committee. A detailed report was issued on 12 June 2008 and only the key issues are summarised here.

Accounting issues

We received a complete set of draft accounts on 2 May 2008, a day later than the deadline set by the Department of Health. The working papers provided were comprehensive and of a good standard.

Two accounting issues were identified during the course of our audit which we brought to the attention of the Audit Committee for consideration, prior to the approval of the financial statements by the Trust:

- **Accounting for part completed patient treatment** - the Trust included income of £1.4million in the draft accounts for part completed spells of patient treatment. Errors totalling £1.3million were identified by the Trust in relation to the original part completed spells calculation and a revised amount of £141,835 has been recorded in the final accounts reflecting only those episodes of treatment for which the Trust can reliably estimate the income to which it was entitled at 31 March 2008.

In addition, the Trust included a prior period adjustment in its draft accounts of £1.4million in relation to part completed spells as at 31 March 2007, the income from which should have been recorded in 2006/07. This value had been calculated incorrectly on the same basis as the 2007/08 income due in relation to part

completed spells and the final version of the accounts has been amended to exclude this prior year adjustment.

- **Change to Accounting Policies** -There have been some minor changes to the accounting policies in relation to part completed spells, stocks and work in progress and pensions costs. We asked the Audit Committee to review these policies to ensure they were satisfied and that they were appropriate.

We also identified a number of other minor disclosure amendments and reclassifications within the accounts, all of which were highlighted and reported to the Audit Committee.

Financial standing

Financial Outturn 2007/08

NHS Trusts have a number of key financial duties, as set out in the table below, all of which the Trust achieved with the exception of the Better Payments Practice Code.

Target	Performance	Target met?
Achievement of in-year breakeven	The Trust has reported a retained surplus for the year of £1.1million.	Yes
Remain within the allocated Capital Resource Limit	The Trust underspent against its Capital Resource Limit (CRL) by £1.020million.	Yes
Remain within its External Financing Limit	The Trust has an undershoot on its External Financing Limit (EFL) by £2.4million.	Yes
Compliance with the better payment practice code	The Trust performed poorly having paid only 19% of non-NHS and 14% of NHS invoices in accordance with the requirements of the Code.	No

Statutory Break Even Duty

NHS Trusts have a statutory duty to "breakeven taking one year with another". This is generally taken as breaking even over a 3 year (or exceptionally if extended) 5 year period. Whilst the Trust has achieved in year breakeven, and is forecasting a £1million surplus in 2008/09, it is not planning to achieve the statutory breakeven duty until 2009/10.

As a result we were required to complete a referral to the Secretary of State under section 19 of the Audit Commission Act in relation to the Trust's failure to achieve its statutory break-even duty.

Looking ahead to 2008/09 and beyond

The final accounts timetable has again been brought forward by the Department of Health for 2008/09, with draft accounts to be prepared and submitted by NHS bodies to the Department of Health by 23 April 2009, one week earlier than in 2007/08. Similarly, audited accounts need to be submitted by 12 June 2009, over a week earlier than in the current year.

The Department of Health has also recently published its timetable for the introduction of International Financial Reporting Standards (IFRS) to the NHS accounts. The first deadline for the Trust is to restate its 2007/08 closing balances to be IFRS compliant by 31 December 2008. We will work with the Trust to assist in the introduction of IFRS.

Key issues arising from the review of the Trust's use of resources

We are required to issue a conclusion on whether we are satisfied that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the use of resources conclusion.

We are also required to assess how well NHS organisations manage and use their financial resources by providing scored judgements on the Trust's arrangements in five specific areas. This is known as the Auditor's Local Evaluation (ALE).

Use of Resources conclusion

The use of resources conclusion for NHS bodies comprises an assessment of the arrangements in twelve areas, which are closely linked with the Auditors Local Evaluation (ALE) judgements. In order for an unqualified use of resources conclusion to be provided, an NHS body should achieve the minimum standards at Level 2 under all ALE judgements.

We provided a qualified Use of Resources conclusion in regard to the Trust's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. The opinion is qualified as the Trust failed to achieve the Code of Practice criteria that the Trust has put into place arrangements to ensure that its spending matches its available resources as it failed to achieve its statutory break even duty or to meet its recovery plan.

In addition, the Trust failed to achieve the Code of Practice criteria that the Trust has put in place arrangements for the management of its asset base as the Trust's estates strategy does not provide an assessment of whether the Trust is providing an inclusive environment.

Auditor's Local Evaluation

We assessed the Trust's arrangements in five areas using the 1-4 scoring system introduced by the Audit Commission, where:

- 1 = below minimum requirements - inadequate performance
- 2 = at minimum requirements – adequate performance
- 3 = consistently above minimum requirements – performing well
- 4 = well above minimum requirements – performing strongly.

The finalised scores will be formally published by the Audit Commission in late September 2008.

Area	2008 Score	2007 Score
Financial reporting	2	2
Financial management	2	2
Financial standing	1	1
Internal control	2	2
Value for money	2	2

The Trust's arrangements for financial reporting, financial management, internal control and value for money are adequate and the scores for these themes have been maintained over the past two years.

However, within the financial reporting theme, the Trust recorded a Level 1 for the financial accounts, a reduction in score from the previous year, as a result of the failure to submit its accounts to the auditors and the Department of Health by the deadline of 1 May.

We are pleased to report that the Trust increased its score for the annual report from Level 2 to Level 3, as the annual report contained only a few minor errors. In addition, a thorough consultation process was undertaken by the Trust that evaluated how the content of the report could be improved upon during 2007.

The Audit Commission determines one overall score. To reach level 3 overall, there shall be no score below level 2 and financial management, financial standing and value for money must each score at least 2. Where a Trust scores 1 for Financial Standing the overall score will be 1.

Therefore, the Trust's overall score for 2007/08 will be 1, based upon the rules for overall assessment as the Trust recorded a Level 1 for financial standing. To move forward to a level 2 overall next year, the Trust will need to score a Level 2 in financial standing and maintain the scores achieved in each of the other areas.

Looking ahead to 2008/09, the Auditor's Local Evaluation framework for Trusts has recently been published. There are no fundamental changes to the framework.

Closing Remarks

This letter has been discussed with the Director of Finance and Chief Executive. The letter will be presented to the Audit Committee on 23 October 2008 with a copy provided to all Board Members.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Trust's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP
August 2008

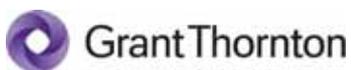
A Reports issued in relation to the 2007/08 audit

Report	Date Issued
Audit plan	July 2007
Information Management and Governance review	April 2008
ISA260 communication of audit matters to those charged with governance	June 2008
Auditors Local Evaluation (ALE) 2007/8	August 2008
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B Audit Fees 2007/08

The table below summarises the planned and actual audit fees charged to the Trust during 2007/08.

Audit Area	Plan 2007/08	Actual 2007/08
	£	£
Accounts - core audit	55,000	55,000
Use of Resources - red risk review IM&T	15,000	15,000
Use of Resources (including ALE)	60,000	60,000
ALE reporting and moderation	16,500	16,500
Sub total use of resources	91,500	91,500
Total audit fee	146,500	146,500



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