



Accountants &
business advisers

**Royal National Orthopaedic
Hospital NHS Trust**

Annual Audit Letter 2005/06

Report to the Directors of the Board

October 2006

1 Introduction

The Purpose of this Letter

- 1.1 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. 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's website at www.audit-commission.gov.uk and also on the Trust's website.
- 1.2 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 auditor and the Trust

- 1.3 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.
- 1.4 As the Trust's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which 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.

The scope of our work

- 1.5 Our main responsibility as the appointed auditor 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
 - whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.6 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 2005/06 audit is provided in the Appendix.
- 1.7 The letter also includes a summary of the Healthcare Commission's annual health check assessment of the Trust. Further details of the annual health check can be found on the Healthcare Commission's web site at www.healthcarecommission.org.uk

2 Activities and services of the Trust

- 2.1 The Royal National Orthopaedic Hospital NHS Trust (RNOH) provides a comprehensive range of neuro-musculoskeletal healthcare, covering a wide range of services to patients from across the country, many of whom have been referred by other hospital consultants for second opinions or for treatment of complex or rare conditions. These services are provided across two sites, the main site at Stanmore in Middlesex and a Central London outpatient's facility.
- 2.2 As a national centre of excellence, the RNOH provides treatment for patients from across the country. All patients benefit from the work of the team of highly specialised consultants, many of whom have national and international recognition for their expertise. They are supported by teams of dedicated nurses, therapists and other highly specialised clinical staff who are also recognised for their clinical expertise in neuro-musculoskeletal care. As a result the RNOH also has a significant role in teaching junior doctors, future orthopaedic surgeons, nurses and other health professionals.
- 2.3 The Trust has continued to focus its activity on the treatment of patients with a need for complex orthopaedic surgery, such as the correction of curvature of the spine (scoliosis) and the treatment of patients with bone tumour. It has performed well during the 2005/06 financial year, has achieved all of its key clinical performance targets, and has maintained high clinical standards with a very low incidence of MRSA Bacteraemia infection. During the year the Trust has significantly increased the number of patients treated, this having been achieved with fewer beds open in January to March than in the previous year.
- 2.4 The Trust incurred a significant deficit of £3.8m for the first time in 2004/05 and, although it made significant progress in improving the financial position with income increasing substantially, a further deficit of £0.46m arose during 2005/06. The Trust continues to plan the programme of improvement and modernisation to ensure it can achieve the challenging activity and financial targets required to assist with the recovery of the deficit.
- 2.5 The Trust has continued with its plans to rebuild the hospital in Stanmore, and in December 2005 the Harrow Planning Committee granted outline planning permission to the development. The Trust has also been successful in achieving the 100% booking target, with all relevant patients able to negotiate and agree a suitable appointment date and time.
- 2.6 The Healthcare Commission, the regulator for health care and public health, has awarded the Trust a "fair" rating for the quality of health care in the annual health check for 2006. The Healthcare Commission has also reported that all core standards have been "fully met", that existing national standards have been "almost met", and arrangements to achieve the new national targets for improving the health of the population are "good".
- 2.7 The Trust was previously assessed as "zero stars" under the 2005 assessment system, the lowest rating for patient care and management for the Trust, as a result of failing to achieve financial breakeven and the 17 week outpatient waiting time target.

3 Key findings

- 3.1 The Trust has faced another challenging year as a result of continued financial pressures brought about by the Payment by Results regime, demanding NHS Plan targets and the full implementation of national initiatives such as Agenda for Change.
- 3.2 Whilst much has been achieved in the year, the Trust has incurred a deficit of £462,000 for the year. The Trust has included the recovery of this deficit within its financial planning and has embarked on a challenging programme to reach financial balance and recover its cumulative deficit over the next few years.
- 3.3 Demonstrating an ability to operate within its available financial resources will be key to the Trust progressing with its proposed PFI Scheme for the new hospital.

Accounts

- 3.4 We were able to issue an unqualified opinion on the Trust's accounts on 10 July, by 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 during the year.

Accounts preparation processes

- 3.5 The draft accounts were submitted to the Department of Health on 10 May 2006, two days after the Department of Health's deadline. This was the second year that accounts had been submitted late to the Department and this will need considerable review, and likely additional resource, to ensure it does not recur in the future.
- 3.6 Our audit was scheduled to start on 1 June to allow the Trust sufficient time to prepare the information required for the audit. Although we had prepared a detailed document request outlining the information required to complete the audit, at the start of the audit we were only provided with the information for some of the key account areas. The delay in receiving information placed significant pressure on the audit timetable.

Revenue recognition and deferral of income – NHS Scotland

- 3.7 The Trust reached agreement with NHS Scotland to perform some one-off work, for which total income of approximately £2.25m would be received. The work involved treating 40 patients for which an initial payment of £1.5m was received. Despite much of the work not having been completed, all of this initial income was incorrectly included in the accounts for 2005/06.
- 3.8 The work being performed is in effect a long term contract and as a result income should be recognised in line with the accounting principles of SSAP9. As a result, the Trust should have only recognised a proportion of the income, with the remainder of the balance being recorded as deferred income. It is this adjustment that resulted in the trust recording a deficit for the period.

Revenue recognition for private patient income

Retrospective billing

- 3.9 The Trust performed a detailed review of its private patient billing, and identified an additional £1,106k of income relating to 2004/05 and 2005/06 that the Trust should have billed. The Trust has recognised there may be recoverability issues for this additional billing and has therefore included some provisions. Based on our review of the information in support of the exercise, we are satisfied that the income figure recorded in the accounts is reasonable, although the provision is slightly understated.

Insurance companies

- 3.10 The Trust negotiates annual contracts with the insurers over the standard rates to apply to the work for insured individuals, although during 2005/06, no agreements were in place for three insurance companies. The Trust considered that a proportion of the increase for the 2006/07 contracts relates to funding in respect of 2005/06 and included £99k of accrued income in the 2005/06 accounts. We considered this treatment to be inappropriate, but due to the small value it was not adjusted within the accounts.

Use of resources

- 3.11 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 value for money conclusion.
- 3.12 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.

Financial position

- 3.13 For the second year the Trust has failed to achieve financial breakeven although it has achieved its other key financial duties for the year:

Target	Performance	Target met
Breakeven on income and expenditure	The Trust achieved a deficit of £462,000 Cumulative deficits of £4,231,000	No
Keep within the Capital Resource Limit (CRL)	The Trust under-spent by £177,000 against the CRL of £1,027,000	Yes
Keep within the External Financing Limit (EFL)	The Trust met its EFL.	Yes

- 3.14 The Trust intends that, subject to the agreement of the Strategic Health Authority, recovery of the cumulative deficit will be achieved in 2007/08, with significant surpluses arising in both 2006/07 and 2007/08. There are, however, a number of risks around the current forecast £952,000 surplus for 2006/07, mainly arising from the need to deliver increased activity levels and the residual cost improvement initiatives for the remainder of the year. The Trust acknowledges that additional cost savings may be required to cover any income shortfalls or cost pressures.

Auditor's Local Evaluation (ALE)

3.15 We have assessed the Trust's overall arrangements for securing economy, efficiency and effectiveness in the five areas reviewed.

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

3.16 The assessments are scored from level "1" (inadequate performance) through to level "4" (performing strongly), and the Trust is required to score at least level "2" to achieve minimum expected requirements (adequate performance).

3.17 We concluded that the Trust had adequate arrangements in respect of many of the individual criteria within each of the areas, but that in two areas the performance was insufficient for a score of "2" to be achieved overall. The scores of "1" in the above table were a result of the following reasons:

- Financial reporting – the need to improve the accounts preparation process to ensure accounts are submitted in line with Department timetable and that appropriate work papers, and supporting evidence of transactions and balances are available at the start of the audit process
- Financial standing – the need to develop plans to assist in achieving break-even following the deficits in 2004/05 and 2005/06, by reviewing the recovery plan to ensure it realistically projects that it will meet breakeven duty over the agreed period.

3.18 The results of the ALE review have been applied by the Healthcare Commission in its annual health check to assess the Trust's use of resources as "weak".

Acute Hospital Portfolio

3.19 The Acute Hospitals Portfolio is a review of services carried out by the Audit Commission and its audit suppliers on behalf of the Healthcare Commission. The work is mandatory in all acute trusts. The aim is to inform your Trust about its performance compared to other trusts. The following two topics were covered this year:

Diagnostic services (imaging)

3.20 The Trust has low waiting times for all imaging procedures except MRI scans, there being long waits for these due to significant increases in activity and the complexity of cases. The plan to purchase a MRI scanner should help to improve waiting times. The turnaround times for most imaging procedures are poor, and the number of operational hours per week is low. The introduction of a Picture Archived Computerised System should assist in improving reporting turnaround.

- 3.21 Data has indicated only 63% of examinations are reported by a qualified radiographer or experienced referring clinician, which is very low. This is again, in part, due to the complexity of cases, but the Trust needs to formalise arrangements and implement controls to ensure all examinations are reported by a suitable qualified radiographer.
- 3.22 The unit cost of imaging is very low in comparison to other trusts, primarily due to low salary costs from there being a small establishment and vacancies within the department. The weighted throughput per radiographer is high and, although some improvement in reporting is possible, the Trust is satisfied that it is achieving value for money in this area.

Medicines Management

- 3.23 Due to the specialist nature of the Trust the pharmacy department is small and there is a reduced need for a large formulary. However, there is scope for improvement as although the Drugs and Therapeutics Committee makes timely decisions on new drugs, there are few formal risk assessments on unlicensed drugs prior to use. In addition, the Trust does not have processes to regularly check staff competency, including training needs.
- 3.24 Staff shortages give limited opportunities for pharmacy staff to spend time on the wards and contribute to patient care. The Trust has made good progress with the self-medication by patients and dispensing for discharge. The results of the patients' survey indicated they are generally satisfied with the level of information that they received on their medication, which is provided verbally together with manufacturers' leaflets, and patients are able to phone the pharmacy during working hours. However, the Trust needs to improve arrangements for ensuring patients can obtain support and advice after working hours.
- 3.25 The medicines management strategy needs to be reviewed and updated to take account of changes in management, including increasing the use of pharmacy staff to contribute to decision making and planning and spend more time on clinical activity. The medicines budget has been based on historic figures, with limited increases to take account of price or activity changes, and control over it has been poor with significant overspends arising, although this is now being addressed.

Specific risk-based work

- 3.26 We also carried out a number of specific pieces of work based on our assessment of the key risks facing the Trust, including a review of the use of Information and Governance to support service delivery and a follow up review of waiting list arrangements.

Information Management and Governance

- 3.27 The review posed a number of questions against which we have assessed the performance of the Trust. The key points arising are:
- there is recognition of the importance of good information within the Trust, and the majority of staff felt the information was accurate, up to date and timely
 - there is a considerable amount of performance information provided to the Board on a monthly basis, which allows the Board to gain an overview on the Trust's performance

- a staff survey indicated that only half of respondents felt that the systems did not enabled them to readily access the information they required for their job
- the Trust has developed appropriate policies, although staff awareness of these and other legal requirements was weak and there is no process in place for monitoring
- the Trust's prospects for improvement through better information management are not yet in place as improvements are required to the Trust's information systems.

Waiting list review

- 3.28 This review followed up the results of the review completed during 2003/04, the level of work being dependent on those results. Overall we have concluded that waiting list management arrangements were improving, but that there remained continued cause for concern in some areas, including the data entry procedures, the extent of reporting to the Board on waiting list management and the functionality of the IT systems. An action plan has been put in place to address the recommendations arising from this review.

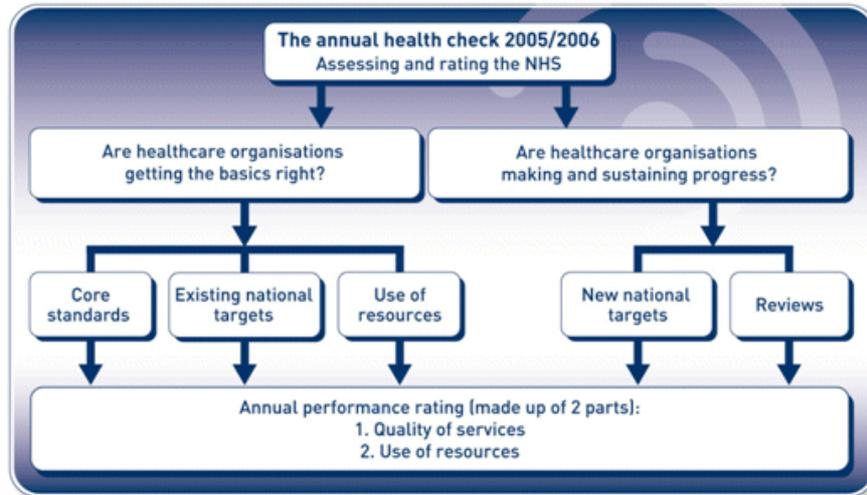
Value for money conclusion

- 3.29 Whilst we have assessed the Trust's overall arrangements for securing economy, efficiency and effectiveness as performing adequately, we have concluded that its arrangements in three areas had not met the Audit Commission's expected minimum requirements. This has resulted in an "except for" qualified value for money conclusion, where the arrangements are not considered adequate, for the 2005/06 financial year in respect of the Trust's:
- arrangements to monitor the quality of its published performance information, and to report the results to Board members
 - having put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities
 - arrangements to ensure that its spending matches its available resources.

Healthcare Commission annual health check

- 3.30 The Healthcare Commission has introduced a new and comprehensive assessment of NHS organisations in England which is more wide-ranging than the previous system of star ratings. The assessment scores NHS trusts on many aspects of performance including the quality of services provided to patients and the public and how well the financial and other resources are used.
- 3.31 The annual health check for 2005/2006 draws on the results of the assessments regarding 'getting the basics right' and 'making and sustaining progress'. Getting the basics right reflects on areas where trusts should already be achieving compliance - core standards, existing national targets and use of resources. Making and sustaining progress considers more developmental areas relating to standards (through improvement reviews and the acute hospital portfolio) and the new national targets.

3.32 The components of the Healthcare Commission annual health check are shown below:



Core standards

3.33 The Trust “fully met” the core standards set by the Government although reported that three standards had not been in place throughout the entire year. These standards have since been addressed and the Trust declared that it was fully compliant with all standards by 31 March 2006. The three standards requiring action were:

- Healthcare staff appropriately recruited, trained and qualified – to address weaknesses identified in the Paediatric Nursing Workforce in providing 24 hour paediatric nursing cover
- Safe and secure environment for health outcomes – the age of the Trust’s properties and design of buildings restrict the Trust from being fully fire compliant until the site redevelopment is completed
- Healthcare services to be provided in premises that meet national specifications – 61% of the Trust’s buildings are over 60 years old and many do not comply with current standards which will be addressed as part of the site redevelopment proposal.

Existing national standards

3.34 The Trust “almost met” all existing national standards, with performance at a high level in some areas but not consistent across all areas of assessment.

3.35 National standards that were achieved include: six months maximum wait for inpatients, three months maximum wait for outpatients, minimal delayed transfers of care, maximum one month wait from diagnosis to treatment for cancers, and booked hospital appointments.

3.36 The Trust did not achieve the required level of performance for offering patients another binding appointment date within 28 days for operations cancelled for non-clinical reasons.

New national standards

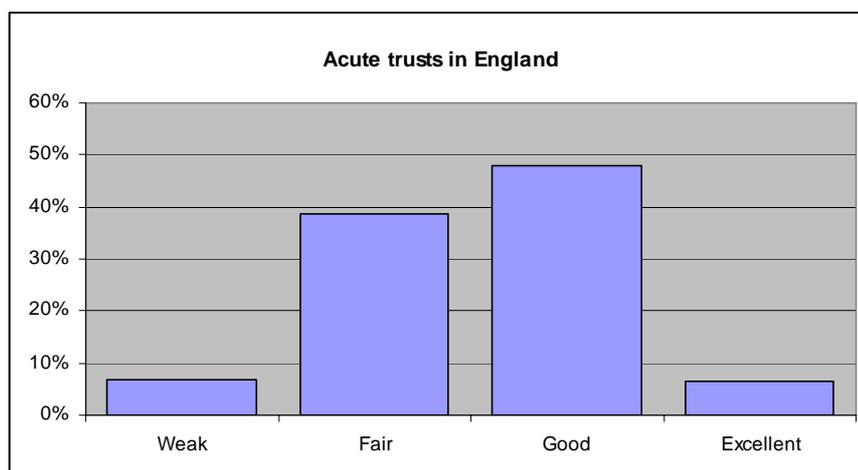
- 3.37 The Trust achieved an overall “good” assessment against the new national standards for improving the health of the population in England.
- 3.38 Achievements include reductions in MRSA infections, reduced adult smoking rates, improvements in the patient experience and involvement in health care decisions, and tackling underlying determinants of ill health and health inequalities.
- 3.39 The Trust did not achieve the required level of performance for reducing health inequalities by 10% by 2010 for infant mortality and life expectancy, and progress to ensure that maximum waits from GP referral to hospital treatment within 18 weeks by 2008.

Improvement review of Services for Children in Hospitals

- 3.40 The Healthcare Commission has undertaken a review of children’s services at the Trust, based on the National Service Framework for Children, Young People and Maternity, and focused on areas such as child-friendly environment, specialist children’s nurses, and provision of care to children.
- 3.41 The review found that the Trust had some areas of good performance although improvements could be achieved in outpatient services and planned elective surgery. The overall score for Children’s Services was assessed as “fair”.

Quality of services assessment

- 3.42 The Healthcare Commission has assessed the Trust’s overall score as “fair” for its quality of services. The comparative information of assessments for all acute trusts in England is shown below:



- 3.43 The overall score for the quality of services has applied the assessments above for core standards, existing national standards, new national standards, the improvement review of Services for Children, and the Acute Hospital Portfolio medicines management review (weak).

4 Key recommendations

4.1 During the year we made a number of recommendations to the Trust. We have highlighted below the key recommendations required to drive improvements at the Trust and responses from management:

Recommendation	Management response
<p>That the Trust ensure all of the savings identified within the cost improvement plan are supported by realistic action plans, support is obtained from the SHA for the long term break even plan and PSP and that regular cash flow forecasts are provided to the board.</p>	<p>The Trust has a monthly Cost Improvement Board accountable to Finance Committee and Trust Board to oversee the delivery of Cost Improvements. Action plans for 2006/7 have been agreed and are being implemented. The Cost improvement plan for 2007/8 – 2011/12 has been agreed in outline and detailed action plans will be agreed as part of the annual planning cycles.</p> <p>The Trust is agreeing the long term break even plan with the SHA and has agreement in principle to its plans. Formal confirmation continues to be delayed as definitive guidance on the process for signing off long term financial plans with the new London SHA is awaited.</p> <p>Cash flow overviews are provided to the Board on a monthly basis. More detailed cash flow reporting will begin from Quarter 2 2006/7.</p>
<p>The Trust should improve the management of its significant business risks through the use of risk management training, a detailed review of the risk management process, increased risk management reporting and ensuring the consideration of the impact of partnerships.</p>	<p>Risk management training workshops have been run during 2006/7. The July 2006 Trust Board considered Risk Management arrangements in detail and approved new arrangements for risk management reporting in line with the audit recommendations.</p>
<p>To improve the monitoring and review of performance, the Trust needs to develop a coordinated approach to data quality to allow assurance to be obtained on the reliability of published information.</p>	<p>The Trust has launched an “improving information” project in 2006. The September 2006 Trust Board approved a new data quality policy and has agreed the process of implementation of this policy. A data quality steering group will oversee the implementation of this project on an on-going basis. Project milestones and targets will be agreed and reported back to Trust Board on a monthly basis as a work stream within the Clinical Systems Improvement performance report.</p>
<p>The Trust should ensure it has procedures in place to produce its annual accounts, and supporting comprehensive working papers, in accordance with relevant standards and timetables.</p>	<p>A Finance Directorate annual plan has been agreed incorporating increased resources and improved processes for the production of final accounts. This will be implemented during 2006/7 to ensure year end accounts and working papers are delivered to timetable.</p>
<p>The Trust needs to ensure it manages its spending such that it achieves its recoverability plan and is able to remain within the available resources.</p>	<p>Performance against plan is being rigorously monitored and timely mitigating action being taken when financial performance is not on target. This is monitored both at Trust level by the Trust Board and at weekly Executive Team meetings. A process or regular in-year formal Clinical Directorate performance monitoring has been put in place for 2006/7.</p>

Recommendation	Management response
Introduces periodic reporting of waiting list data quality issues to the Board by the staff responsible for data quality, including a review of the resources allocated to data entry and follow up of high risk recommendations from data quality audits.	The response to this audit recommendation is a key aspect of the improving information project. As indicated above, the September 2006 Trust Board approved a new data quality policy and has agreed the process of implementation of this policy. A data quality steering group will oversee the implementation of this project on an on-going basis. Project milestones and targets will be agreed and reported back to Trust Board on a monthly basis as a work stream within the Clinical Systems Improvement performance report.

Acknowledgement

- 4.2 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.

Reports issued in relation to the 2005/06 audit

Report	Date Issued
Audit Plan	April 2005
Information Management and Governance Red Risk Review	March 2006
Detailed review of waiting lists	March 2006
Report on the audit of the financial systems ('Interim Audit Memorandum')	June 2006
Report on the audit of the financial statements ('Final Audit Memorandum')	June 2006
Annual Audit Letter	September 2006