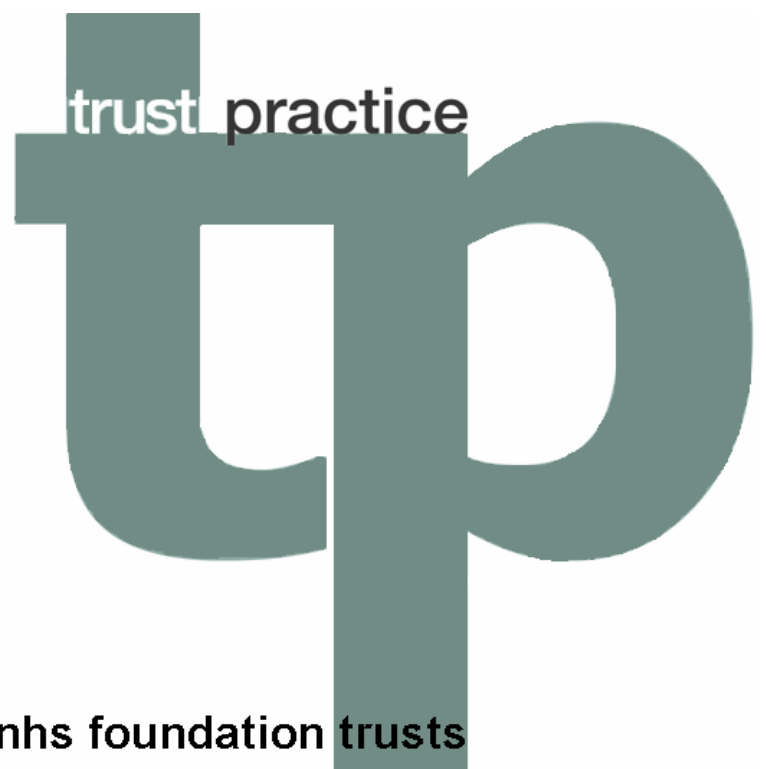

Dorset County Hospital NHS Foundation Trust

Annual Audit Letter

Audit 2006/07

September 2007



supporting nhs foundation trusts

External audit is an essential element in the corporate governance of foundation trusts and makes an important contribution to the stewardship of, and process of accountability for, their resources.

The scope of audits of foundation trusts is extended to cover not only the audit of the financial statements but also arrangements to secure value for money. Auditors of foundation trusts may also report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors of foundation trusts are set out in the Health and Social Care (Community Health and Standards) Act 2003 and Monitor's statutory Audit Code for Foundation Trusts. Under the Code, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Status of our reports to the Trust

The Engagement Letter, issued by the Audit Commission, explains the respective responsibilities of auditors and of the audited body. Reports prepared by engagement leads are addressed to governors, members, non executive director, directors or officers and are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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Summary report

- 1 This Annual Audit Letter summarises the key issues arising from my audit of West Dorset General Hospitals NHS Trust for 2006/07 and will be the last year of reporting under the Audit Commission Act and Code of Audit Practice. From 1 April 2007 the Audit Commission appointed KPMG as the Trust's external auditor. Having met the criteria of Monitor's rigorous assessment process and being awarded a Foundation Trust licence from 1 June 2007, the Trust's audit will in future be conducted under Monitor's Code of Practice and an Annual Audit Letter will no longer be a mandatory requirement.
- 2 In 2006/07 the Trust improved its financial position by implementing a significant cost improvement programme of £5 million and achieving breakeven for the first time in three years. At the beginning of 2006/07 the Trust set out to generate a surplus of £1.5 million to offset the cumulative deficit from the previous two years. However, the Trust delivered a smaller surplus of £16,000, partly due to reductions in medical training income which the Department of Health announced half way through the year.
- 3 The Trust has a target surplus of £902,000 for 2007/08 which relies upon a challenging cost improvement programme of £3.1 million. The Director of Finance is reporting that the Trust is being paid £3 million below what it would receive if the full tariff were applied. The Trust still faces significant financial challenges in the short-term and the forecast improvement in financial position in the medium to long-term depends upon the full implementation of Payment by Results.
- 4 In 2006/07 the Trust has improved its scores in the Auditors' Local Evaluation for financial management and financial reporting but the Trust will still score 1 ('inadequate') for financial standing. This relates to the previous years' deficits and should the Trust achieve the target surplus of £902,000 in 2007/08 this would still not offset the deficits in previous years.
- 5 We have prepared action plans from our work including ALE and it is for the Trust to agree and implement the actions to further improve its arrangements for financial management, internal control, value for money and financial reporting. The Trust needs to ensure that it has strong arrangements for ensuring the implementation of agreed recommendations.

Recommendations

R1 Ensure that the cost improvement programme is delivered to secure the Trust's financial position.

R2 Ensure that agreed recommendations are implemented and assess their impact.

Purpose, responsibilities and scope

- 6 This Annual Audit Letter (letter) summarises the key issues arising from our work carried out during the year. I have addressed this letter to the directors and members of the Trust as it is the responsibility of the Trust to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Trust in meeting its responsibilities.
- 7 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Trust is planning to publish on its website.
- 8 As your appointed auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I 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.
- 9 Also, the Audit Commission uses my assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health check.
- 10 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that I consider the Trust should be addressing. I have listed the reports issued to the Trust relating to the 2006/07 audit at the end of this letter.

Audit of the accounts

- 11 I issued an unqualified opinion on the Trust's accounts on 20 June 2007, before the deadline set by the Department of Health. In my opinion the accounts give a true and fair view of the Trust's financial affairs and of its income and expenditure for the year.
- 12 On 18 June I reported to the Audit Committee any issues arising from the 2006/07 audit. There are no issues to be reported in this audit letter.

Trust's use of resources

- 13 I am required conclude on whether 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.
- 14 I am 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 auditors' local evaluation (ALE). The Audit Commission provides the scores to the Healthcare Commission (HC) to use as part of its annual health check.

Value for money conclusion

- 15 I concluded that the Trust had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Auditors' local evaluation judgement (including financial standing)

- 16 I assessed the Trust's arrangements in five areas or themes. Within each theme are sub components called key lines of enquiry. We scored each area from 1 to 4 (1= inadequate and below minimum standards, 2 = adequate, 3 = performing well and 4 = performing strongly). I issued a detailed report supporting our assessment and highlighting areas for improvement to the Trust in June 2007.

(Note: 1 = lowest, 4 = highest).

Table 1 ALE scores

Element	Assessment 2005/06	Assessment 2006/07
Financial reporting (subject to national moderation)	1 out of 4	3 out of 4
Financial management	1 out of 4	2 out of 4
Financial standing (subject to national moderation)	1 out of 4	1 out of 4
Internal control	2 out of 4	2 out of 4
Value for money	2 out of 4	2 out of 4
Overall assessment of the Audit Commission	1 out of 4	1 out of 4

- 17 Table 1 shows the improvement that the Trust has achieved over the past year in financial management and financial reporting. However, the score for financial standing remains at 1, which results in an overall score of 1. Although the Trust achieved breakeven in 2006/07, the small surplus of £16,000 does not offset the cumulative deficit of £1.5m from the previous two years. In addition, even if the Trust were to achieve its target surplus of £902,000 in 2007/08 the cumulative deficit would still remain.
- 18 We have agreed an action plan with the Trust to further improve arrangements, including the following.
- Implement the cost improvement programme so that future Trust surpluses offset the deficits in previous years.
 - Demonstrate the register of gifts and hospitality is effectively managed, following its introduction at the end of 2006/07.
 - Carry out a local fraud risk assessment, to inform the LCFS annual audit plan and ensure that specific fraud risks are addressed.
 - Develop a framework to guide and encourage the use of benchmarking across the Trust and assess the impact of the actions arising from the benchmarking exercises.
- 19 For 2007/08, Dorset County Hospital, as a Foundation Trust will not be subject to ALE and the Trust's score in the Healthcare Commission's use of resources criteria will be provided by Monitor (financial ratios and governance assessment).

Follow up of Acute Hospital Portfolio

- 20 In 2005/06 we reviewed medicines management, diagnostics (imaging, pathology and endoscopy), and admissions management and reported our findings in May and June 2006. The final product of our review was an action plan describing what the Trust agreed to do to address areas for improvement.
- 21 The Trust has made progress against the action plans in many areas. However, the Trust should review two key issues:
- ensure it follows-through on the actions still underway. The monitoring approach used to date should be revisited by December 2007 and the Trust should satisfy itself that all actions are implemented appropriately.
 - put in place mechanisms to clearly demonstrate the impact of the actions, in line with the original action plans which stated the positive outcome expected, eg improved value for money, increased patient satisfaction, decreased risk.

- 22 For example, the following actions should be reviewed to ensure they meet the desired outcome:
- consider the benefits of introducing double checking of injectable drugs and cancer drugs;
 - work with PCT to more accurately predict the demand for secondary care (taking into account changes in clinical pathways), plan the capacity required, to ensure the 18 week target is met year on year; and
 - establish an action plan to increase utilisation of ultrasound equipment in the community.

National Fraud Initiative

- 23 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in January 2007.

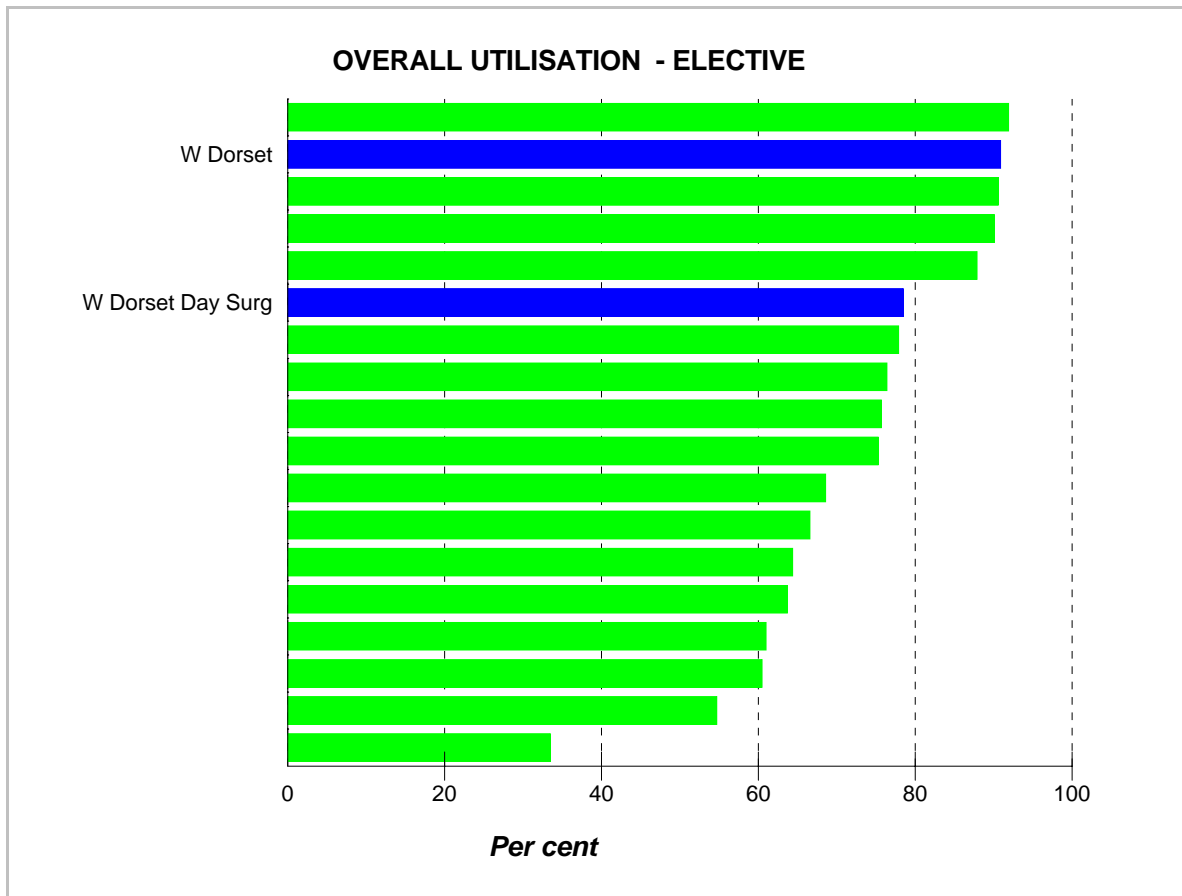
After initial delays in submitting details for payments to creditors the Trust is co-operating fully in this exercise and the Trust's Local Counter Fraud Specialist (LCFS) is following up the data matches identified by the Audit Commission.

Additional services (non-Code work) - review of operating theatres

- 24 A number of participating trusts supplied data detailing how theatres were used for the six week period beginning 6 November 2006. This included timings of individual operations by specialty and type of procedure (planned, emergency, inpatient or day surgery).
- 25 Using this data utilisation was calculated at three levels and these three indicators were then combined to give an overall utilisation.
- Utilisation of lists (the percentage of planned lists actually held during the reference period).
 - Run time utilisation (the time the first operation began and the last ended compared with the planned times).
 - Operating hours (the time actually spent operating on patients compared with the run time - that is, assessing down time between patients).
- 26 Results were fed back both individually and also shared amongst the group of trusts at the end of January. Good practice was identified and shared amongst the group of participants.
- 27 Recommendations have been put forward at individual sites and we have agreed our findings with the Trust. The Trust's main unit performed well but the day surgery unit could improve upon late starts and early finishes.

Figure 1 Day surgery and head and neck utilisation of operating theatres

There is scope for improvement of the use of theatre time for day surgery (named West Dorset - when the study was undertaken).



28 The Trust's response is that it has continued to focus on maximising the utilisation of theatres:

- utilisation of individual theatre lists is reviewed by Executive Director on a daily basis;
- the Trust has introduced new management arrangements over Admissions;
- the Trust states that it has improved Booking Arrangements;
- improvement targets have been set for day case theatre utilisation (90 per cent by March 2008) and number of cases per theatre list (5.2 by March 2008)
- theatre efficiency is included in monthly Integrated Performance Reports to the Board.

29 Consequently, the Trust is reporting that utilisation of day case theatres has improved from 81.9 per cent in April 2007 to 86.2 per cent in July 2007 and the average number of procedures per day case list has increased from 4.9 to 4.98 over the same period.

Closing remarks

- 30 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I have presented the letter at the Audit Committee on 19 September 2007 and will provide copies to all Board members.
- 31 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Trust during the year.

Table 2 Reports relating to the 2006/07 audit

Report	Date of issue
Audit plan	June 2006
Auditors' Local Evaluation - 2005/06 follow up	December 2006
Operating theatres	May 2007
Auditors' Local Evaluation - interim	May 2007
Report to those charged with governance	June 2007
Opinion on financial statements	June 2007
Value for money conclusion	June 2007
Final accounts memorandum	July 2007
Auditors' local evaluation	September 2007
Annual audit letter	September 2007

- 32 The Trust has taken a positive and constructive approach to our audit and I wish to thank Trust staff for their support and co-operation during the audit.

Simon Garlick
Engagement Lead

September 2007