

# Annual governance report

United Lincolnshire Hospitals NHS Trust

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

As at 1 June 2012 I expect to issue an unqualified audit opinion.

The key messages from the audit are:

- The draft financial statements were submitted to the Department of Health by the deadline date.
- The arrangements for the production of your financial statements were sound. Working papers produced by the Trust in support of the financial statements were good and finance staff have responded promptly to queries raised during the audit.
- The audit identified a number of misstatements, some of which were corrected. The corrected and uncorrected misstatements are shown at Appendix 2 and 3 respectively.

## Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. Although there is scope for further development as the leadership team becomes more established, I have not identified sufficient gaps in your arrangements for securing financial resilience and economy, efficiency and effectiveness to cause me to qualify my conclusion. In particular:

- The Trust has strengthened its arrangements for securing financial resilience this year. It has made a small in year surplus which contrasts with the significant deficit reported last year. The Trust has plans in place to secure longer term financial resilience, although there are acknowledged risks to the achievement of cumulative break even over time
- Improvements are also apparent in the Trust's arrangements for securing economy, efficiency and effectiveness, particularly in the focus on monitoring and delivery of profitability targets by business unit.

## Certificate

As I have yet to complete the external assurance review of the Trust's quality account I am unable to certify completion of the audit. I expect to complete my review, report my findings to management and issue my certificate by 30 June 2012.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements included in this report (appendix 3);
- consider the unadjusted misstatements (appendix 2) and provide a rationale for the non-adjustment of these for inclusion in your Letter of Representation (appendix 4);
- approve the letter of representation (appendix 4), on behalf of the Trust before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

# Financial statements

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**The Trust's financial statements and annual governance statement are important means by which the Trust accounts for its stewardship of public funds. As Directors you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Uncorrected errors

We identified errors in the financial statements and reported these to management. Some errors have been corrected but we have identified a number of errors (other than those of a trivial nature) that management has declined to correct as follows and as detailed at appendix 2:

- The Trust has written out of its property, plant and equipment items classed as 'hard to find'. Our testing of a sample of these assets found that they were in fact still held by the Trust and the extrapolated error in relation to this amounts to £680k;
- Incorrect treatment of a revaluation increase as an impairment reversal, the effect being an adjustment of £193k between the revaluation reserve and operating expenses;
- The Trust's onerous contract provision calculation was based on an incomplete year's data. When updated to take into account a full year's information, the effect of the adjustment would be a decrease in operating expenses and an increase on reversals of impairments of £192k;
- Incorrect calculation of the amount due from partially completed spells and the availability of the second cut information for the quarter 4 PbR income which would increase income and trade and other receivables by £421k;
- Incorrect inclusion of provisions that I have assessed as not meeting the requirements of IAS 37. This relates to a number of provisions, the total value of the disputed items being £1,271k;
- Failure to take account of a credit note of £118k issued in April but relating to March. This would have the effect of reducing operating expenses and trade and other payables; and

- Failure to correctly show the adjustments of £50k arising from the elimination of the donated asset reserve. The adjustment would affect various lines in the accounts.

## Corrected errors

Most of the corrected errors in the accounts relate to disclosure notes and narrative changes as shown in appendix 3. These corrections have been made to the final statement of accounts.

## Significant risks and my findings

I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Overall submission deadlines are challenging in 2011/12. Capacity remains an issue within the finance function although the Trust has now recruited a substantive Chief Financial Accountant.</p>	<p>We had early and regular discussions with finance staff about closedown plans to ensure quality and timing of information and dealt with any potentially contentious issues before the main audit began. We brought forward as much work as possible to the interim stage of the audit and provided staff with an indication of our working paper requirements.</p> <p>The Trust sent staff to the Audit Commission's national Final Accounts Workshop which offered guidance on topical technical accounting issues related to accounts production. We supplemented the workshops with a local discussion of the implications for the audit of the accounts.</p> <p>The accounts were produced to a good standard in accordance with national deadlines and the audit proceeded as planned.</p>
<p>The Trust has complex and unusual arrangements for the valuation of assets and there has been evidence of inappropriate capitalisation of expenditure in previous years. Although we have agreed a protocol, there remains a risk that assets will be accounted for incorrectly.</p>	<p>We discussed the Trust's approach and undertook early work where possible to ensure that the treatment of assets was in accordance with the agreed protocol. Our substantive, post statements work has confirmed that, in all material respects, the Trust's treatment of its assets is appropriate.</p>

## Significant weaknesses in internal control

It is the responsibility of the Trust to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Trust has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Trust only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of the Manual for Accounts; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in internal control.



## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Trust's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I wish to report the following matters to you.

Table 2: **Other matters**

Issue	Finding
Uncertainty as to the accounting treatment of the buy-out of a lease arrangement.	In 2010-11 the Trust accounted for the buy-out of its leasing arrangements with Progress Housing in respect of the provision of nursing accommodation at the Louth County Hospital Site. This buy-out did not actually occur until 30 March 2012 at a cost of £1.118m which has been fully capitalised by the Trust. The calculation of the amount paid by the Trust is complex and uncertainty arises over the split of this amount into its revenue and capital elements. The transaction has no material effect on the accounts.
Write out of 'hard to find' items.	As highlighted under 'uncorrected errors' above, the Trust has written £680k out of its property, plant and equipment items classed as 'hard to find'. Our testing of a sample of these assets found that they were in fact still held by the Trust. There is therefore scope for the Trust to improve its processes for asset verification.
Better Payment Practice Code	The Trust has again failed to achieve the BPPC target of 95% of invoices within 30 days of receipt of a valid invoice, although performance has improved since last year. Actual performance is 86% by number and 81% by value for non NHS invoices and 78% by number and 86% by value for NHS invoices. As recommended in previous years, the Trust should continue to review the reasons for the slow processing of invoices and take appropriate action to improve timeliness of payment.
Pension entitlements of senior managers	NHS Pensions has used the most recent set of actuarial factors produced by the Government Actuary's Department (GAD) with effect from 8 December 2011. Therefore,

Issue	Finding
	the GAD factors used as at 31 March 2012 are different from those used as at 31 March 2011. This is contrary the Manual for Accounts for NHS bodies which requires the use of common market valuation factors for the start and end of the period.

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## Summarisation schedules

Alongside my work on the accounting statements, I have also reviewed and reported on the summarisation schedules submitted by the Trust to the Department of Health. I have also reported to the National Audit Office under its Group Audit Instructions. I have no matters to report.

## Annual Report

I have reviewed the Draft Annual Report and have found that it is consistent with the audited financial statements.

# Value for money

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**I am required to conclude whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan issued in March 2012 I reported to you the significant risks that were relevant to my conclusion which were focussed on meeting the cost improvement programme target and achieving financial balance in year. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Trust has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

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Table 3: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Trust has made progress this year in securing financial resilience. The outturn for the year was a small surplus compared to a £14 million deficit in the previous year and the Trust has plans in place to achieve cumulative financial balance by 2014/15. There are significant risks around securing longer term financial stability and these have been communicated to the Board. The plans are predicated on the achievement of an ambitious cost improvement programme (CIP) target and the Trust has a history of failure to achieve its savings plans. This year saw a shortfall on the CIP of £4.8 million against a target of £20 million, but this is a better performance than in previous years and indications are that the processes for identifying, monitoring and delivering schemes have improved this year. The Trust has a longer</p>

## Criteria

## Findings

### 2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

term CIP aimed at delivering savings of £66 million over 3 years and it will need to ensure that it develops the arrangements for identifying schemes over the medium as well as the short term.

The Board provides appropriate leadership in prioritising resources and has been supportive of the new financial planning and performance management processes aimed at holding business units accountable for profitability and therefore, prioritisation of resources. There is evidence of improved focus on understanding of costs, for example, the costing and monitoring of invest to save schemes. The Trust has made progress in service line reporting and has completed the exercise to devolve central costs to business units. There are improved processes in place for developing and monitoring achievement of CIP targets and a focus on reducing spend in non priority areas due to the profitability targets of business units. These targets and the regular reporting to the Board of the relative profitability of the different areas of the hospital should drive further understanding and ownership of cost reductions.

Although the process for involving front line staff in developing savings plans is improving and the leadership team is actively working on engaging staff, it is important that the effectiveness of measures such as performance clinics as a tool for engagement are assessed.

There is some scope for better 'read across' between organisations so that decisions do not have an unintended detrimental impact elsewhere. There are also opportunities for further benchmarking when the Trust has completed its restructuring process.

Criteria	Findings
	Data quality has traditionally been an area of weakness for the Trust but PbR reports indicate improvements in performance on clinical coding, for example

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## External assurance on the quality account

I have yet to complete the external assurance review of the Trust's quality account. I expect to complete my work by and issue a separate report to management by 30 June 2012.

# Fees

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## I reported my planned audit fee in the Audit Plan issued in March 2012.

There is also a planned supplementary fee for the external assurance review of your 2011/12 quality account.

I anticipate completing the audit within the planned fee but will report to the Director of Finance any further changes as a result of completing the external assurance review of the Trust's quality account.

Table 4: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit - opinion	204,250	204,250
Audit – quality accounts	12,500	12,500
<b>Total</b>	<b>216,750</b>	<b>216,750</b>

# Appendix 1 – Draft independent auditor’s report

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## **INDEPENDENT AUDITOR’S REPORT TO THE DIRECTORS OF UNITED LINCOLNSHIRE HOSPITALS NHS TRUST**

I have audited the financial statements of United Lincolnshire Hospitals NHS Trust for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers’ Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England. I have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Board of Directors of United Lincolnshire Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 45 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of Directors and auditor**

As explained more fully in the Statement of Directors’ Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trust; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of United Lincolnshire Hospitals NHS Trust as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England.

## **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been prepared properly in accordance with the requirements directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England; and
- the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

- in my opinion the governance statement does not reflect compliance with the Department of Health's Guidance;
- I refer the matter to the Secretary of State under section 19 of the Audit Commission Act 1998 because I have a reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency; or
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998

I have nothing to report in these respects

## **Conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Trust and auditor**

The Trust is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.



I report if significant matters have come to my attention which prevent me from concluding that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Trust has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Trust had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, United Lincolnshire Hospitals NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

### **Delay in certification of completion of the audit**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to provide assurance over the Trust's annual quality accounts. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Ian Sadd

District Auditor

Audit Practice  
Audit Commission  
Unit 10, Whitwick Business Centre  
Whitwick Business Park  
Stenson Road  
Coalville  
LE67 4JP

1 June 2012

# Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income		Statement of financial position	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Other gains and losses – Gain/Loss on disposal of PPE Property plant and equipment - Various	The Trust has written out of its property, plant and equipment items classed as 'hard to find'. Our testing of a sample of these assets found that they were in fact still held by the Trust		680	680	
Operating expenses – Impairments and reversals of PPE Revaluation reserve	Incorrect treatment of a revaluation increase as an impairment reversal	193			193
Property, plant and equipment - Reversals of impairments Operating expenses – Impairments and reversals of property, plant and equipment	Re-calculation of onerous contract using a full year's data		192	192	
Revenue from patient care activities – Primary care trusts - Tariff Trade and other receivables – NHS receivables revenue	Incorrect calculation of amount due from partially completed spells and the availability of the second cut information for the quarter 4 PbR income		421	421	

		Statement of comprehensive income		Statement of financial position	
Operating expenses – Various Provisions – Various	Incorrect inclusion of provisions felt not to meet the requirements of IAS 37		1,271		1,271
Operating expenses – Other Trade and other payables – NHS payables revenue	Failure to take account of a credit note issued in April but relating to March		118		118
Breakeven duty	Failure to correctly show the adjustments arising from the elimination of the donated asset reserve	-	-	-	-
<b>Total</b>		<b>193</b>	<b>2,682</b>	<b>2,682</b>	<b>193</b>

# Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income		Statement of financial position	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
General	A number of disclosure and presentational issues were noted within the accounts	-	-	-	-
Accounting policies	A number of differences were noted between the pro forma policies of the Department of Health and those disclosed by the Trust	-	-	-	-
Annual Governance Statement	Some minor amendments and further detail in some areas.	-	-	-	-
Revenue from patient activities	Incorrect analysis of £3m of PCT income across tariff, non-tariff and market forces factor classifications	-	-	-	-
Operating leases	Incorrect inclusion of a number of one-off transactions in its lease calculations resulting in a reduction in future receivables of £3m	-	-	-	-
Exit packages	Incorrect re-statement of the prior year figures in relation to this note	-	-	-	-

		Statement of comprehensive income		Statement of financial position	
Inventories	Incorrect disclosure of consumable inventory movements of £53m	-	-	-	-
Trade and other payables:	A number of re-classifications of payables between headings	-	-		19
– Interest payable				530	
– NHS payables – revenue				462	
– NHS payables – capital				164	
– NHS accruals and deferred income					530
– Non-NHS payables – revenue				1,603	
– Non-NHS payables – capital					2,210
– Non-NHS accruals and deferred income					
Provisions	Disclosure of £78m of NHSLA clinical negligence provisions as £77,000	-	-	-	-
Financial instruments	Incorrect disclosure of a previous years figure as the current year figure and omission of £4m of financial liabilities in respect of provisions	-	-	-	-
Related parties	Failure to disclose two related party transactions in relation to the Interim HR Director and Inter-change HR Ltd, and two senior members of staff who are also Trustees of St. Barnabas Trust	-	-	-	-
Losses and special payments	Failure to disclose the ex-gratia payment of £148,000 to the former Chief Executive as a special payment	-	-	-	-
Prior period adjustment	Failure to include a note in the accounts in relation to its PPA in accordance with IAS 8				

	Statement of comprehensive income		Statement of financial position	
<b>Total</b>	-	-	<b>2,759</b>	<b>2,759</b>

# Appendix 4 – Draft letter of management representation

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## **United Lincolnshire Hospitals NHS Trust - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, the following representations given to you in connection with your audit of United Lincolnshire Hospitals NHS Trust's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the NHS Manual for Accounts which give a true and fair view of the financial position and financial performance of the Trust, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Trust and the reasons for not correcting these items are as follows;

- reason 1;
- reason 2; etc

### **Supporting records**

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Trust have been properly reflected and recorded in the financial statements.



## **Going Concern**

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures, if any, relating to going concern.

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Trust has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value. I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to accounting estimates and disclosure included within the financial statements.

## **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

## **Compensating Arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements.

## **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

## **Related party transactions**

I confirm that I have disclosed the identity of United Lincolnshire Hospitals NHS Trust's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

## **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

## **Segmental Reporting**

I have reviewed the operating segments reported internally to the Board and I am satisfied that is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- the nature of the products and services;
- the nature of the production processes;

- the type or class of customer for their products and services;
- the methods used to distribute their products or provide their services; and
- the nature of the regulatory environment.

### **Specific representations**

I confirm that where the Trust has some form of involvement with other entities, it has considered the nature of these arrangements and concluded that it does not have the power to exercise a significant influence over the body concerned.

I confirm that the Trust has not identified any jointly controlled assets or jointly controlled operations for which it is required to account.

Signed on behalf of United Lincolnshire Hospitals NHS Trust

I confirm that this letter has been discussed and agreed by the Trust on 1 June 2012.

Signed

Name

Position

Date

Signed

Name

Position

Date

# Appendix 5 – Glossary

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## **Annual Audit Letter**

Report issued by the auditor to the Trust after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to the Audit Committee before the auditor issues their opinion and conclusion.

## **Annual Governance Statement (AGS)**

The governance statement records the stewardship of the Trust to supplement the accounts. It gives a sense of how successfully it has coped with the challenges it faces and of how vulnerable the organisation's performance is or might be. This statement draws together position statements and evidence on governance, risk management and control, to provide a more coherent and consistent reporting mechanism.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local NHS bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Internal control**

The whole system of controls, financial and otherwise, that the Trust establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

### **Quality Account**

A Quality Account is a report about the quality of services provided by an NHS body. The report is published annually and available to the public.

### **Significance**

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

### **Statement on Internal Control (SIC)**

The annual report on the Trust's systems of internal control that supports the achievement of the Trust's policies aims and objectives.

### **Summarisation schedules**

To produce the DH's consolidated accounts the DH requires NHS bodies to produce their financial statements in a standard excel format called summarisation schedules along side their actual accounting statements.

# Appendix 6 – Action plan

## Recommendations

### Recommendation 1

Review the processes for asset verification so that items are not written out in error.

<b>Responsibility</b>	Associate Director of Finance - Financial Control
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<b>Priority</b>	2
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<b>Date</b>	March 2013
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<b>Comments</b>	The write out assets in 2011-12 was undertaken to clear the asset register of those assets which it was not possible to positively verify or the existence of which could not be confirmed without a disproportionate time commitment. The Trust policy in terms of capitalisation is now much stricter and prevents the capitalisation of assets which cannot be uniquely identified.
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### Recommendation 2

Continue to review the reasons for the slow processing of invoices and take appropriate action to improve timeliness of payment in order to improve its performance in relation to the administrative duty under the Better Payment Practice Code.

<b>Responsibility</b>	Associate Director of Finance - Financial Control
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<b>Priority</b>	2
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<b>Date</b>	March 2013
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<b>Comments</b>	The action plan developed and implemented in 2011-12 has resulted in improved performance. Certain actions remain outstanding or have been complicated/delayed by organisational/departamental changes. It is hoped that the further automation of processes and training being provided to managers, along with the completion of the re-organisation, will lead to further progress in achieving the 95% target.
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