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United Lincolnshire Hospitals NHS Trust

Annual Audit Letter 2012-13

July 2013

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This report is addressed to United Lincolnshire Hospitals NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Bellamy who is the engagement lead to the Trust or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by text phone/minicom (020 7630 0421), or via post to Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2012-13 audit at United Lincolnshire Hospitals NHS Trust (the Trust). Although this letter is addressed to the directors of the Trust, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the Trust to publish the letter on the Trust's website at <http://www.ulh.nhs.uk>.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. We have reported all the issues in this letter to the Trust during the year and we have provided a list of our reports in Appendix A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code) which requires us to report on:

Use of Resources (UoR)	We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.
Financial Statements including the Annual Governance Statement	<p>We provide an opinion on the Trust's accounts. That is whether we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year.</p> <p>We also confirm that the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement. We provide a certification to the National Audit Office (NAO) to provide assurance on inputs to the DoH's Resource Accounts. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p>

The Audit Commission also mandated its appointed auditors to carry out assurance work on the 2012-13 quality accounts, as part of their duties under section 5(1) of the Audit Commission Act 1998. We provide a limited assurance opinion on the Trust's report against the guidance, their consistency with other specified documentation and over detailed testing on two performance indicators. The 'limited' reference relates to the limited procedures we were required to complete rather than any limitations on the assurance opinion given.

Adding value from the External Audit service

We have added value to the Trust from our service throughout the year through our:

- Attendance at meetings with members of the Executive Team and Audit Committee to present our audit findings, broaden our knowledge of the Trust and to provide insight from sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;

- A review of general IT controls in place at the Trust highlighting any control weaknesses and areas for improvement; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Fees

Our fee for 2012-13 was £136,506 excluding VAT (2011/12: £216,750). This was a small increase above the fee agreed at the start of the year with the Trust Board as a result of £3,956 charged for additional work required in respect of the Quality Accounts.

Acknowledgement

We would like to take this opportunity to thank the officers of the Trust for their support throughout the year.

This section summarises the key messages from our work during 2012-13.

Overall financial results and other key messages

- Financially, 2012-13 was a challenging year for the Trust. The Trust made a surplus of £0.123 million against a planned surplus of £0.883 million and this was supported by non-recurrent income of £19.9 million, which cannot be relied upon in the future.
- The Trust's annual plan for 2013/14 forecasts a deficit for 2013/14 of £17m. This deficit is predicated on achieving 5.5% CIP (£22.4m) which is a challenging target, at the higher end of Monitor's expectations.
- The Trust has not met its planned CIP targets in the last two years. In 2012/13, the Trust had a target of 21.7m (5.1% of turnover) and achieved only 67% (£14.5m, 3.4% of turnover).
- The Trust is in the process of developing its longer term clinical strategy, taking into account both local changes arising from the Trust's 'shop in shop' programme and also plans to work with key partners in the local health economy to develop a plan for sustainable health services in Lincolnshire. The Trust recognises that its long term financial plans will be dependent on the development of its clinical strategy and this creates uncertainty over the Trust's future financial plans.
- The Trust has struggled to manage its cashflow throughout the year. The Trust has received £6m in PDC in March 2013 and £6m in April 2013. This will help support the Trust's cashflow position during 2013/14, but will not improve the underlying deficit position.
- The scale of the NHS efficiency challenge is heightened by intense public and media scrutiny on quality of care following the impact of the Francis Inquiry and the recent Keogh reviews. Issues with aspects of quality of service have impacted on the Trust's financial position in year. The Trust has incurred £7.3m of fines for breaching the C.Difficile target and other contractual KPIs. For 2013/14, the Trust will need to fund additional nursing posts in order to increase staffing levels following a CQC report published in March 2013. The recent Keogh inspection and resulting report will provide further significant challenges for the Trust to address.

Use of Resources

- We concluded that we are satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013, except for the matters described in our summary above. We acknowledge the Trust is taking action to address its overall financial position.

Financial Statements including the Annual Governance Statement	<ul style="list-style-type: none"> ■ We issued an unqualified opinion on the Trust’s accounts on 6 June 2013. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. ■ We received the Trust’s submitted accounts on 22 April 2013 in accordance with the Department of Health’s deadline. The draft accounts were of a good standard and we identified only minor presentational or classification adjustments all of which were adjusted by the Trust. ■ We have also confirmed that the Trust have complied with the Department of Health requirements in the preparation of the Trust’s Annual Governance Statement. ■ No significant adjustments were required to the Annual Governance Statement.
Whole of Government Accounts	<ul style="list-style-type: none"> ■ We issued an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Whole of Government accounts submission with no exceptions.
Recommendations	<ul style="list-style-type: none"> ■ We raised four recommendations as a result of our 2012-13 audit work, none of these are considered high risk. ■ The Trust has made good progress in implementing agreed audit recommendations from prior years raised by the previous auditor. There is one recommendation remaining which is partially implemented and the Trust is progressing this.
Public Interest Reporting	<ul style="list-style-type: none"> ■ We have a duty to refer any matter to the Secretary of State if we have a reason to believe that 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. We also have a duty to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be considered by the Trust or brought to the attention of the public. ■ We have issued a report to the Secretary of State in relation to the Trust’s breach of its breakeven duty. We do not consider it appropriate to issue a report in the public interest in respect of this matter .
Fraud	<ul style="list-style-type: none"> ■ We have a responsibility to consider fraud and we addressed this in our assessment of your controls framework. We have also reviewed your arrangements for the prevention and detection of fraud and corruption, alongside our use of resources work. ■ This work is complete and has not identified any matters which we wish to draw to your attention.

Quality Accounts

From our mandated work on the Trust's Quality Account:

- The Trust achieved a limited assurance opinion on compliance with the Quality Accounts Regulations.
- The Trust achieved a limited assurance opinion on consistency with other specified information.
- The Trust achieved a limited assurance opinion on the indicators in the quality account.

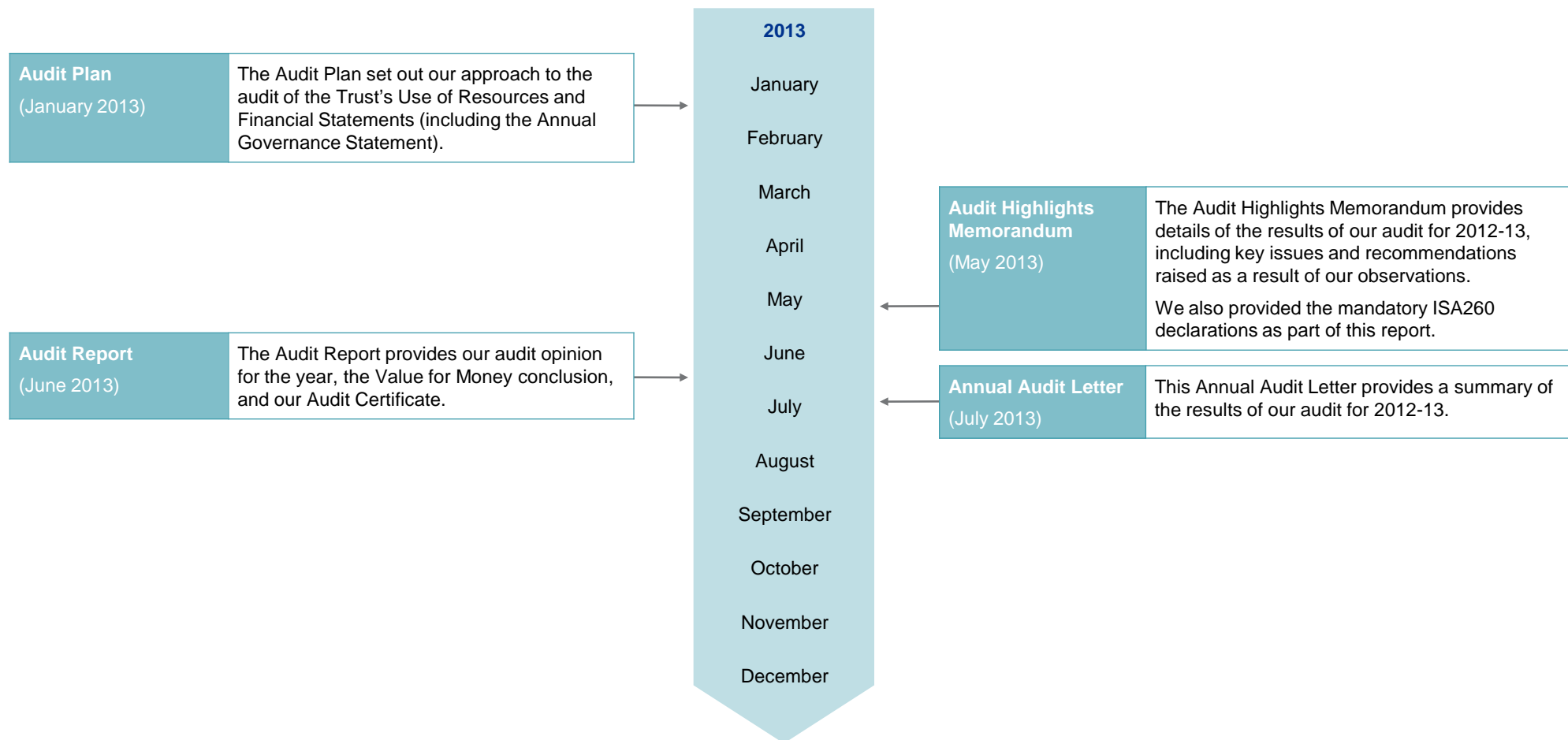
The 'limited' reference relates to the limited procedures we were required to complete, rather than any limitations on the assurance opinion given. Achieving a limited assurance opinion is the highest possible level of assurance available.

Detailed testing was undertaken on two of the performance indicators included in the quality account. The two indicators tested were:

- Mandated indicator: Percentage of patient safety incidents resulting in severe harm or death.
- Local indicator: Number of Clostridium difficile infections ("CDIs"), for patients aged two or more on the date the specimen was taken

We reported a completeness risk at every Trust relating to the data collected for patient safety incidents as it relies on every incident being reported (as the denominator). The nature of the indicator means it is not possible to obtain sufficient audit assurance that the data used to calculate the indicator is complete. We also noted that the indicator relies heavily on clinical judgements in the classification of an incident as "severe harm". Within the scope of this engagement we have not deployed clinical expertise to challenge and assess these judgements and there is therefore an inherent uncertainty in the presentation of the indicator.

Significant work was required by the Trust to bring the draft quality accounts submitted to the audit team on 7 May 2013 in line with the guidance. We recommended that as a key Trust document in the public domain, the Trust should ensure that sufficient resources are allocated to the compilation of the quality account for future years. Prior to submission to the auditors for review, the Trust should review the document against the requirements as set out in the guidance available on the Department of Health website.





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