Annual audit letter 2004-05
Pennine Acute Hospitals NHS Trust
13 December 2005
Audit
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This report is addressed to 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 Trevor Rees, who is the engagement partner to the Trust and the national contact partner for all of KPMG’s work with the Audit Commission, on 0161 246 4000, email trevor.rees@kpmg.co.uk. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission’s complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ or by e mail to complaints@audit-commission.gov.uk. Their telephone number is 020 7166 2349, textphone (minicom) 020 7630 0421.
Scope and purpose of this letter

This letter reflects our responsibilities under the *Code of Audit Practice* (the Code). This requires us to consider and assess the relevant significant operational and financial risks that apply to The Pennine Acute Hospitals NHS Trust (the Trust) and the arrangements it has put in place to manage these risks. The result is greater emphasis on ensuring that our work is tailored to the circumstances of the Trust and audit effort directed to those areas of greatest risk.

Our Annual Audit Letter therefore focuses on those operational and financial risks that we considered relevant to our responsibilities as updated and amended during the course of our audit. These have been recorded in more detail in Appendix E.
1 Executive summary

The Trust has had a successful 2004/05, you retained your two star status and also met your statutory financial targets. This was achieved whilst continuing to deliver an ambitious change agenda reflected in the Healthy Futures and Making It Better programmes which set out proposals for the future of hospital and community NHS services across the area. The Trust is heavily involved in both initiatives and the recent management changes at Director and Senior Management level have left some notable vacancies over the summer months. A key challenge will be to retain the strategic vision at the Board level whilst operating with a reduced Executive Team. It is essential that the Board does not lose sight of the critical issues, whilst also ensuring that day to day operations continue to be well controlled.

Although the Trust has historically achieved break-even in accordance with its financial plans this has only been achieved through implementing significant cost savings programmes and via the receipt of repayable financial support from the Strategic Health Authority (SHA). We recognise that the Trust is actively working to resolve its underlying deficit and has secured £12m non-recurrent financial support from the Strategic Health Authority and Local Health Commissioners during 2005/06. The local health economy financial position continues to be a cause for concern. The 2005/06 year to date shows that you need to maintain tight financial management and scrutiny in the face of a range of risks, principally achieving activity levels anticipated in the financial plans and managing the growing impact of Payment by Results (PbR) and various workforce issues.

The 2004-05 financial year

Performance management

Based on the work we have carried out this year, our overall assessment is that you continue to build upon the procedures in place to deliver satisfactory standards of performance management and economy, efficiency and effectiveness. The Acute Hospitals Portfolio reviews found many examples of good practice and in particular we found that patient perceptions of nursing care were high and that the level of day case activity has increased. The review did identify areas for action and include improving the monitoring of sickness absence levels on wards and identifying ways to improve the utilisation levels for theatres. Our work on data quality found that overall management arrangements were good but there is a need to implement trust-wide policies and procedures for day surgery and A&E.

We have also reported on our review of Structural Reorganisation within the Trust that was started in December 2003. The review found a number of areas for improvement across the Trust relating to improved communication, better clinical engagement and promoting standardised approaches to management across the Divisions. Although the fieldwork for the review was completed a while ago, we feel that the issues identified remain relevant to the Trust today. We note that similar issues have been reported in the interim statement from Professor Sir George Alberti in the organisational development review he is doing.

The North East Sector has embarked on the Health Futures Project which aims to reconfigure services so that the balance between primary and secondary care is more patient focused and efficient. The Project is likely to go to formal consultation in December. Once the project scope has been finalised and communicated to the stakeholders, the implementation of the project will represent significant challenges within the Trust in identifying and maintaining rationalised, efficient and effective services.

The Trust management team has worked consistently in previous years to address the issues it has faced. However following the votes of no-confidence in the Summer there is added pressure on the management team to continue to operate effectively and all decisions are subject to additional scrutiny. This pressure on management is exacerbated by the vacancies that the Trust currently has at Director and senior management level. There is a risk that the existing management capacity is over-stretched and the strategic vision of the Trust is overlooked.

In further developing your performance management systems the Trust needs to take account of Standards for Better Health and the Auditors Local Evaluation (ALE) as the outcomes will link directly to the annual assessment by the Healthcare Commission.
1 Executive summary (continued)

Financial aspects of corporate governance

The Trust continued to maintain satisfactory standards of control associated with financial aspects of corporate governance.

During 2004/05 the Trust met all of its statutory financial duties, as it did the previous year. However, the 2004/05 financial plan and reported out-turn were heavily reliant on non-recurrent measures and the local health economy continues to be a cause for concern. In achieving financial balance, the Trust received repayable financial support of £3.5m from the SHA.

Looking forward into 2005/06, the Trust’s budget forecasts a break-even position for the year despite a reported underlying deficit of £7.5m, and additional cost pressures in-year. The Trust is on track to achieve breakeven, but this out-turn is subject to the realisation of a number of key non-recurrent assumptions:

- achievement of around £10m cost savings and implementation of Divisional recovery plans;
- planned and agreed brokerage of £10.35m from the Strategic Health Authority;
- £2.65m non-repayable financial support from the local Primary Care Trusts;
- additional income to support increases in activity levels during 2005/06.

The Finance Committee continues to be kept informed of these assumptions and the changes in risk profiles by the Director of Finance. Again, the focus has been on non-recurrent measures, going forward the Trust needs to focus on recurrent savings and we recognise that much work is being done to reduce the underlying deficit.

The Board has continued to develop the Assurance Framework during 2004/05 and the Head of Internal Audit provided his opinion that the Assurance Framework met the requirements of the Statement of Internal Control during 2004/05. The Trust has been reviewing its governance structures and has undertaken to further develop its assurance framework in 2005/06.

Audit of the accounts

We issued an unqualified opinion for the Trust’s annual accounts and the accounts of the Charitable Funds managed by the Trust. The audits were completed within the deadlines set and no material adjustments were made. This achievement reflects well on the finance teams professionalism during our audit.

Following last year’s audit, we held a de-brief session with the Finance staff and worked jointly on issuing a prepared by client request that was more suited to the Trust’s procedures. As a result, this year the working papers supporting the figures and explanations provided by Finance staff were comprehensive and timely.
1 Executive summary

Looking forward to 2005-06

The Trust faces a challenging year in 2005/06. The overriding focus must be continuing to achieve a sustainable breakeven position together with managing the financial risks posed by Payments by Results. At the same time it is also crucial that the Trust seeks to decrease its underlying recurrent deficit and reduce its reliance on financial support. The Trust is looking at ways to address this in the longer term, including reconfiguration of its services.

Alongside the key financial considerations, the Trust needs to:

- focus on achieving the benefits of the workforce contract changes;
- develop the current performance levels whilst addressing the management and organisational development action points from the current review being led by Professor Sir George Alberti;
- retain the strategic vision at the Board level whilst operating with a reduced Executive Team;
- consider how it will implement the outcomes of the Healthy Futures Programme and Making it Better initiatives once the consultation is complete. The timetable for the public consultation has slipped and this delay could result in additional pressure on staff as the Trust seeks to meet original timescales. These projects will require significant senior manager input;
- meet the challenges of the new Healthcare Commission Performance Assessment framework;
- manage the risks surrounding the national delays in the national IT programme – ensuring that the national delays do not impact on the Trust’s local delivery of targets;
- maintain the pace of change of local reconfiguration in the light of recent announcements by Sir Nigel Crisp on the need for PCT reconfiguration (see below);
- continue the developments within corporate governance and work towards ensuring that the Assurance Framework is fully embedded within the organisation.

During July and August 2005 announcements were made by Sir Nigel Crisp and subsequently the SHA for the need for PCT reconfiguration. Although the objectives of the reconfiguration process have not been decided, it is likely that PCTs in the NE Sector will merge with other PCTs in the SHA. We understand there is also an intention of removing the responsibility for community provision from PCTs. The timetable for the reconfiguration has not been formally approved but it is anticipated that the merged PCT will be operating by October 2006, with shadow arrangements existing in advance of that date. Although the PCT reconfiguration does not impact on the Trust directly, there is a risk that the proposed changes could result in the PCTs becoming less engaged with the Healthy Futures Programme. This is a risk area that the Trust will need to monitor.

An action plan relating to our key performance improvements is included in Appendix A.
2 Performance management

Based on the specific reviews we have carried out this year, our overall assessment is that the Trust has put procedures in place to deliver satisfactory standards of performance management. A number of improvements have been highlighted from the Data Quality review undertaken in March 2005. The Acute Hospital Portfolio work has also identified key areas for improvement around monitoring sickness levels and improving theatres utilisation.

Key issues for future development include reviewing the current management capacity to address vacancies that have arisen, dealing with the challenges within the Healthy Futures project and addressing the findings from the structural reorganisation and organisational reviews. Our review of the effectiveness of the Trust’s performance management systems is ongoing however general recommendations have been noted.

One of our duties is to assess whether you have set up appropriate performance-management arrangements. In part, this means considering whether you use your resources economically, efficiently and effectively. Our overall assessment is based on three work streams, summarised below.

- **Mandated reviews**: we performed two main reviews. The first review was concerned with our five-year analysis and reporting of our acute hospitals portfolio. The second review looked at how you manage data quality.

- **Performance-management arrangements**: we assess overall arrangements for performance management and monitoring and we use the national risk-assessment tool developed by the Audit Commission. Within our 2004-05 audit plan, we identified the Audit Commission’s red risks ‘New Funding Flows – Payment by Results’ and ‘Core Financial Management’ as areas that required a full study and both reviews are currently ongoing (see pages 19 and 20). During 2004/05 we also conducted detailed watching briefs on the remaining red risks:
  - Workforce contracts (page 20)
  - Information management & governance (page 11)
  - E – Booking (page 12). We

- **Other work**: If we are asked to do so, or if we identify a need for it, as auditors we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. In our audit plan for 2004/05 we identified a number of local reviews and the findings are set out on pages 12-15.

In further developing its performance management systems the Trust needs to take account of Standards for Better Health and the Auditors Local Evaluation (ALE) as the outcomes will link directly to the annual assessment of the Healthcare Commission. The following is an overall summary of the status and findings of this work in support of our conclusion above.

Performance improvement observations are set out in Appendix A.
2 Performance management (continued)

Mandated review: acute hospitals portfolio

The acute hospitals portfolio (AHP) has been running for six years and is coordinated by the Healthcare Commission. The AHP is a benchmarking exercise that includes all acute hospitals and some PCTs in England. Topics are selected for review each year by the Commission. Data is collected from each trust and submitted to the Commission for inclusion in a national database, which is then used to generate standard reports for each topic in each trust. As auditors, we are responsible for:

- Coordinating the collection of data at the Trust.
- Generating and issuing the standard reports.
- Working with directors and managers in the Trust to interpret the information that appears in the standard report and to develop an action plan for improving performance in the future.

The topics covered in 2004/5 and those planned for 2005/6 are set out in the table below.

<table>
<thead>
<tr>
<th>2004-05 – work completed</th>
<th>2005-06 – work planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ward staffing</td>
<td>Medicines management</td>
</tr>
<tr>
<td>Accident and Emergency</td>
<td>Diagnostic services (pathology and radiology) resources</td>
</tr>
<tr>
<td>Day surgery</td>
<td>Acute bed management</td>
</tr>
</tbody>
</table>

The data collected for each topic in 2004-05 allowed us to compare the performance of the Trust with a group of similar trusts, with the following themes being considered in each area:

- The quality of the patient experience.
- The efficiency of the trust in its use of resources.
- The capacity to improve performance.

As the topics covered in 2004/05 were all included in AHP work in previous years, we were also able to consider the progress made by the Trust since the data was last collected.

Our findings were reported to management in the ‘Acute Hospitals Portfolio – Phase 5’ report issued in 2005. The report highlights those areas where the Trust is performing better than its peers and those where it is below average and identifies the key issues to be addressed going forward. In addition, the Trust agreed to prepare a detailed action plan for each of the topics to address all of the issues identified by the AHP data.

The findings from our work in 2004/05 are summarised overleaf.
## 2 Performance management (continued)

### Acute Hospitals Portfolio – 2004-5 topics

<table>
<thead>
<tr>
<th>Area of good performance</th>
<th>Key issues to be addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ward staffing</strong></td>
<td>● The AHP data indicated that levels of registered nurses, measured as the number of whole time equivalents per bed, are lower than average. Staffing levels should be reviewed to ensure that patient care is adequate and safe.</td>
</tr>
<tr>
<td>● The patient perception of nursing care is high, particularly among young patients.</td>
<td>● The percentage of hours lost to staff sickness is higher than average. Sickness levels should be routinely monitored on a ward by ward basis.</td>
</tr>
<tr>
<td>● Complaints about nursing care are low compared to other trusts, as are drug error rates and accident and incident rates.</td>
<td>● There are concerns, about the completeness of recording drug errors and procedures should be reviewed.</td>
</tr>
<tr>
<td><strong>Accident and emergency</strong></td>
<td>● Numbers being seen by a doctor or nurse practitioner within an hour of arrival is below average at all sites except North Manchester, reflecting overall A&amp;E performance and should be improved.</td>
</tr>
<tr>
<td>● Performance against the 4 hour target was better than average at Fairfield and Rochdale.</td>
<td>● Recollect British Association of Emergency Medicine (BAEM) data and ensure that action is taken to share good practice across sites.</td>
</tr>
<tr>
<td>● The percentage of patients admitted from A&amp;E has decreased since the A&amp;E data was last collected in 2000.</td>
<td>● Sickness levels amongst nurses were not available at the time of the data collection. This should be monitored on a regular basis.</td>
</tr>
<tr>
<td><strong>Day surgery</strong></td>
<td>● The percentage of patients who did not wait to be seen in A&amp;E is significantly above average. This should be monitored to ensure reductions are achieved.</td>
</tr>
<tr>
<td>● Day case rates have generally improved since 2000 and the percentage of procedures with low day case rates has decreased by more than the national average.</td>
<td>● The Trust should review current utilisation of facilities, especially theatres which are running at an average 48% capacity.</td>
</tr>
<tr>
<td>● The percentage of &quot;true&quot; day surgery undertaken has also increased in the period.</td>
<td>● Increase the level of &quot;true&quot; day cases once there is available capacity.</td>
</tr>
<tr>
<td></td>
<td>● The number of procedures cancelled by Hospital is above average, due to problems managing Surgeons leave, shortage of anaesthetists and the inconsistent use of pre-operative assessment. These issues should be addressed.</td>
</tr>
</tbody>
</table>
2 Performance management (continued)

Mandated review: data quality and spot checks

Since 2001, the Audit Commission has produced a number of national reports following its data quality reviews. As a result, data quality is now given higher priority and we have seen improvement in many areas. However, recent work by the Audit Commission and other regulators has shown that improvements to the quality of information in the NHS are still needed. In 2004/5 we undertook a Data Quality review mandated by the Healthcare Commission, but coordinated by the Audit Commission. The results of this work are summarised below:

<table>
<thead>
<tr>
<th>Management arrangements</th>
<th>Good</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Trust’s Business Plan for 2004-05 reflects the importance of Data Quality</td>
<td></td>
</tr>
<tr>
<td>The Information Quality policy and strategy has been reviewed recently and approved</td>
<td></td>
</tr>
<tr>
<td>The Information Quality Assurance Board meets each quarter to monitor the Trust’s performance against the policy</td>
<td></td>
</tr>
<tr>
<td>The Trust has a Data Quality Improvement Plan that identifies the actions the Trust needs to take in order to address any weaknesses identified and address emerging risks relating to Data Quality.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accident and emergency (A&amp;E)</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Trust refers to an “operational policy” in the Self Assessment, however we have not viewed a finalised policy</td>
<td></td>
</tr>
<tr>
<td>We have been unable to view specific A&amp;E guidelines</td>
<td></td>
</tr>
<tr>
<td>Data collected as part of the Acute Hospitals Portfolio Phase 5 work and comparisons made with data submitted by the Trust to the Department of Health suggest all relevant activity is included in the quarterly monitoring return.</td>
<td></td>
</tr>
<tr>
<td>Work undertaken as part of the Acute Hospitals Portfolio Phase 5 would indicate there is a clear and robust audit trail for the generation of the quarterly monitoring return.</td>
<td></td>
</tr>
<tr>
<td>The testing found no errors between data on the CDS, data on the A&amp;E Footman-Walker system and the A&amp;E cards.</td>
<td></td>
</tr>
<tr>
<td>Errors were found in the recording of transfers.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Day surgery</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is no current Trust policy relating to day surgery information.</td>
<td></td>
</tr>
<tr>
<td>The Day Surgery Unit uses national guidelines issued by the British Association of Day Surgery, however these have not been ratified/adopted at Trust level.</td>
<td></td>
</tr>
<tr>
<td>We generally found that the care plans used across the Trust vary from one specialty to another.</td>
<td></td>
</tr>
<tr>
<td>Timings of procedures were not always present on the Care Pathway pro-formas.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ward records</th>
<th>Good</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Trust accepts it has no specific policy on Ward Records, however it does have a Medical Health Records policy and relevant staff follow guidelines issued by the Nursing and Midwifery Council</td>
<td></td>
</tr>
<tr>
<td>From our testing we are not aware of key patient details not being accurately recorded</td>
<td></td>
</tr>
<tr>
<td>The errors found during testing were around care plans or nursing notes not being available on case notes to review</td>
<td></td>
</tr>
<tr>
<td>Most of the records reviewed were of a good quality and generally easy to follow</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratings – Excellent, Good, Weak or Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
</tr>
<tr>
<td>Weak</td>
</tr>
<tr>
<td>Weak</td>
</tr>
<tr>
<td>Good</td>
</tr>
</tbody>
</table>

Pennine Acute Hospitals NHS Trust: Annual audit letter 2004-05
2 Performance management (continued)

As a result of our work on Data Quality we have noted the need for the following performance improvements (as agreed with you):

- The Trust needs to introduce a trust-wide policy on Accident and Emergency, and issue guidelines supporting this policy.
- A Day Surgery policy should also be introduced setting out the Trust’s approach to recording such activity. The Trust should also introduce specific Day Surgery guidelines; the Day Surgery unit currently uses guidelines issued by the British Association of Day Surgery.

We will follow up the actions you take in response to the data-quality review as part of our 2005-06 audit work.

Spot Checks

In 2002, the Department of Health requested that the Audit Commission carry out spot checks on the accuracy of waiting list information at all NHS Trusts, over a five year period, to reassure the public that published waiting times statistics are robust. The Trust was included in the second phase of this programme and our work was completed in January 2004. Trusts are rated according to a “traffic light” assessment and Pennine achieved an overall rating of green which denotes a satisfactory level of performance. As a result we did not undertake a similar review in 2004/05. We will follow up our findings from 2003/04 in 2005/06.

Red risk reviews

Information management & governance (IM&G)

During our watching brief work on IM&G we noted that the Trust is in the middle of a major re-organisation of information systems, reflecting the service reconfiguration happening within the Trust. The Trust now has a Data Quality plan in place and will be monitoring progress on this via the Information Quality Assurance Board (IQAB). There does appear to be some issues around the review of projects for benefits realisation and assurance. All capital programmes being undertaken fit with Connecting for Health (CfH). The delays to the implementation of CfH and related projects have exposed the Trust to the risks of failure to meet project objectives and increased costs. The lack of staffing resources to utilise fully the information produced from information systems may result in failure to identify service improvements and achieve greater value for money. Specific risks that have been identified include:

- How widespread the review of benefits realisation and assurance is occurring on IM&T capital programmes. There is a risk that the Trust is not obtaining the value for money or improvements to services expected from new information systems and may not be aware of problem areas.
- Concerns have been raised over NHS number coverage and duplicates. This may lead to a potential breach of the Data Protection Act 1998. The PCT has experienced delays in implementing N3 connections due to the failure of the Local Service Provider (LSP) to deliver. The delay in timescales may increase overall project costs and a potential failure to realise project.

We also note that a cross-cutting piece of work is being undertaken across the North East sector on the arrangements for implementing the Connecting for Better health programme. The finalised report has been agreed with the lead body (Rochdale PCT) and will be presented to the NE Sector NPfIT Board shortly. We will review the report issued to identify any specific issues for the Trust.
2 Performance management (continued)

E booking
During our watching brief work on E booking we noted that the deadline for project implementation is December 2005 however, budgets and progress are not being monitored thereby increasing the risk of failure to meet project deadlines and stay within budget. The key risk to the Trust is overruns and resultant additional costs on the Choose and Book project, these may incur due to: problems distinguishing areas of responsibility between the Strategic Health Authority, Local Health Community group. LSP and the Trust and the potential lack of resources available for local system implementation and staff training.

Other work areas
Organisational development and management capacity
Earlier this summer, votes of no confidence by the consultant body and the staffside representatives led to a review of the Trust by Professor Sir George Alberti and an organisational development consultant. The final report following this review has not been issued, however an interim statement was issued highlighting a number of key issues which management are committed to addressing. This review, the Trust’s underlying deficit and the Healthy Futures project set a challenging agenda for the Trust and its management.

Since inception, the Trust has had a Divisional and Executive team operating and managing the Trust’s business. However a number of recent staffing changes at the Divisional and Executive level have resulted in a number of vacancies:
- The Director of Surgery position is currently vacant, and the Director of Facilities is fulfilling this role as well as his duties within Facilities.
- The Director of Human Resources is currently on long-term sick leave and the Director of Nursing is covering this post.
- The Medical Director post is being covered by the Associate MD from the Women’s & Children’s Division and the Trust are in the process of recruiting a replacement Director.

These absences leave key gaps at management level and increases the risk that the challenging agenda ahead is not delivered. Each of the Divisions above has key issues or initiatives that need to be addressed to ensure that the Trust is successful:
- The Surgery Division is currently forecasting a deficit of £600,000 for the year-end, an action plan has been devised however it requires appropriate leadership for implementation.
- The Human Resources function has previously dealt with the Consultants Contract and is now implementing Agenda for Change. This is a very resource intensive exercise and requires appropriate leadership.
- The Medical Director faces key pressures to ensure that activity levels and NHS Plan targets are met and governance arrangements are sound.

Given the agenda that needs to be delivered, there is a risk that Directors will continue to be diverted into operational work rather than focusing on delivering a strategic vision to take the Trust forward, also with vacancies at the Trust Director level there is a risk that the current management capacity is overstretched.
2 Performance management (continued)

Overall performance Management arrangements

As part of our performance management programme at the Trust, we have undertaken a local study to review the Trust’s performance management systems. The overall objective of the review is to assess the effectiveness of the Trust’s performance management framework in assisting the Trust to achieve its strategic objectives. Our work considers each of the steps in the performance management cycle assessing:

- the systems in place;
- how effectively they operate in practice; and
- whether the Trust promotes a culture of challenge and continuous improvement through its performance management framework.

Our fieldwork is complete and we will be feeding back our findings to the Director of Modernisation and Performance in November. We have noted some general findings below that we have identified from discussions with Trust staff:

- at a corporate level, the Trust has robust systems in place to performance manage and monitor the key star rating performance targets through the Directorate of Modernisation and Performance as well as robust systems for monitoring financial performance;
- the Trust has recognised the need to update its performance management systems in order to take account of the new guidance “Standards for Better Health”;
- the Trust recognises that it needs to incorporate systems in place for managing performance in relation to ‘softer’ qualitative issues such as HR related issues. The Trust anticipates that this will be addressed through the development of revised systems for Standards for Better Health.

We have reported previously to the Trust on the new Audit Commission approach known as Auditor Local Evaluation (ALE). Our work in 2005/06 will focus on the Trust’s performance against five key areas, one of which is Value For Money. The overall ALE assessment will be determined by the Audit Commission and used by the HealthCare Commission in its annual health assessment of NHS bodies. Therefore, in preparation for this work the Trust should ensure that any action it takes in relation to its performance management systems takes into consideration the ALE requirements relating to Value for Money.

Training for Non-Executive Directors

In recent years, the NHS has witnessed significant changes in the way in which it is working to deliver patient care with the implementation of initiatives such as Patient Choice, E-booking and Payment by Results as well as the introduction of Foundation Trusts. As a consequence, the role of Non-Executive Directors is changing in order to support Trusts to implement these developments.

As part of our role as external auditors to Pennine Acute NHS Trust, we have agreed to undertake an exercise to identify and, if appropriate, meet the training needs of Non-Executive Directors in order to support them in continuing to drive forward the huge agenda faced by the Trust. We have met with the Trust’s Chair to discuss issues currently facing the organisation and the Non-Executive Directors and we are currently undertaking a survey of Executive and Non-Executive Directors to gather a wide range of views and assist in identifying training needs of Non-Executive Directors.
2 Performance management (continued)

Stroke Services in the North East Sector

Our review of stroke services covered the Trust, the PCTs and the local authorities in the North East Sector and was undertaken as a joint project with the Audit Commission. The review was triggered by the poor progress being made across the health economy against the national stroke targets identified in the Older Peoples NSF. The work identified a number of key issues and these are summarised in the table below:

Key issues

- There are four different Older People’s Local Implementation Teams (LITs) in the health economy and they all have stroke sub groups. These groups have each prioritised different elements of the stroke patient care pathway. Whilst this has led to some progress being made, none of the stroke patients treated by Pennine Acute Hospitals Trust were receiving the standard of care across the whole patient pathway that is envisaged by the Older People’s NSF target.
- Considerable work has been done by individual clinicians within Pennine Acute on developing protocols and improving the co-ordination of care for stroke patients. Protocols are currently being piloted with a view to them being rolled-out across all four sites by September 2005.
- There is a widespread perception amongst clinical staff that stroke is not treated as a medical emergency in the same way as, for example, heart attacks are and that this issue lies at the heart of the difficulties faced in improving care of stroke patients.
- All four stroke sub-groups recognise the need to increase capacity amongst the various allied health professional groups who deliver assessment and rehabilitation services to stroke patients. Many of these posts are difficult to recruit to and it is important that such scarce resources are used effectively and are well-supported through consistent use of assistant posts across the whole care pathway.

These issues were discussed with managers and health professionals from each of the organisations covered by the review. They agreed that action was required to improve stroke services in a number of areas, and especially that:

- An integrated stroke care pathway should be agreed and implemented across the whole health economy.
- Patients who suffer a stroke need to be treated in specialist stroke units, in line with the NSF target.
- Investment is required in developing therapy services to improve the outcomes for patients who suffer a stroke.
- Patients should be discharged from acute services as soon as possible to receive rehabilitation, preferably in a community setting.

Agreed actions

- Establish a Stroke Steering Group with representatives from the acute trust, Pennine Care, the five PCTs and the four local authorities in the North East Sector.
- Develop a strategy for implementing a five year vision which will be set out for stroke services.
- Provide advice to the broader reconfiguration groups on the improving stroke services.
- Monitor the delivery of stroke services.
- Coordinate communication between the various groups whose work impacts on the delivery of the stroke care pathway.
2 Performance management (continued)

Emerging Vision (Healthy Futures)

The North East Sector of Greater Manchester is currently under review to finalise plans for reconfiguration of hospital and community NHS services across The Pennine Acute Hospitals NHS Trust footprint, covering Bury, Heywood and Middleton, North Manchester, Oldham and Rochdale. The project, entitled Healthy Futures, is a joint exercise between the five Primary Care Trusts in the North East Sector and the Trust. The project will involve reconfiguring services within and between the Trust’s hospital sites.

The Healthy Futures project is currently undergoing public consultation with plans for a formal consultation in December. Various stakeholder events have been held to inform the public of the plans and the scope of the project, including workshops for clinical staff. An external reference group has been tasked with monitoring the Healthy Futures process to ensure that the engagement of staff, patients, members of the public and other stakeholders is undertaken appropriately.

The implementation of the project will bring significant challenges for the Trust and highlights the importance of having access to key data in order to make important decisions. The Trust will need to ensure that all aspects of the organisation are working together to ensure that any service reconfigurations made are effective and efficient. The involvement of key stakeholders is also paramount, particularly staff and patients.

Structural Reorganisation

As part of our performance management programme at Pennine Acute Hospitals NHS Trust during December 2003 we undertook a local review covering structural re-organisation and integration. This area of work was highlighted as high risk through our audit planning and National Risk Assessment work for the Audit Commission. The full report is presented to the Audit Committee in November however some of the key messages were around:

- risk of management capacity being over-stretched;
- differing approaches undertaken across the Division;
- need for increasing clinical involvement;
- developing performance management framework; and
- improving communications internally and externally.

Although the review was undertaken a while ago we feel that these key messages are still relevant today, creating challenges for the Trust to address in 2005/06 and beyond. The majority of these will be covered by the current review being undertaken by Professor Alberti and also the Health Future project within the NE Sector.

Follow-up of Performance Management work

Follow-up work relating to our previous performance management work is undertaken by the Trust’s Internal Auditors and reported via the Finance Committee. To date, Internal Audit has reported that progress is being made against our previous recommendations.
3 Financial aspects of corporate governance

Our overall assessment is that you have continued to maintain satisfactory standards of control associated with financial aspects of corporate governance. The Trust reported a surplus in year for 2004-05 and work is ongoing to identify and implement cash-releasing efficiencies to balance the 2005-06 budget. To date, the Trust’s financial position has been supported by non-recurrent measures and the focus for 2005-06 and beyond should be on identifying recurrent measures.

The financial plan for 2005-06 sets challenging targets for the Trust, particularly in relation to activity levels, cost savings, implementation of Payment By Results and assessing the actual cost of Agenda for Change following assimilation. The Trust needs to ensure that it continues its efforts to manage these risks effectively.

Financial position

As the external auditors, it is our duty to consider whether you have appropriate arrangements in place to maintain a sound financial position. We first consider the 2004-05 recorded financial out-turn. You needed to meet five key targets, as summarised below.

<table>
<thead>
<tr>
<th>Target</th>
<th>Achieved</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory target: break even to generate a surplus of income over spending, comparing one year with another.</td>
<td>✔</td>
<td>You reported a surplus of £1,398,000 in year.</td>
</tr>
<tr>
<td>Statutory target: external financing limit to control cash so as not to go over the financing limit.</td>
<td>✔</td>
<td>You undershot your target of £7,720,000 by £13,000.</td>
</tr>
<tr>
<td>Statutory target: capital cost absorption duty (CCAD) to generate a surplus of 3.5% in proportion to the asset base.</td>
<td>✔</td>
<td>You generated a surplus of 3.5%.</td>
</tr>
<tr>
<td>Statutory target: capital resource limit to contain capital spending within an agreed limit.</td>
<td>✔</td>
<td>You maintained your capital spend within the target of £13,501,000.</td>
</tr>
<tr>
<td>Administrative target: better payments practice code (BPPC) to pay 95% of invoices within 30 days of receiving them.</td>
<td>✔</td>
<td>You reported 96% by volume and 97% by value paid within 30 days.</td>
</tr>
</tbody>
</table>

During 2004-05 you met all five statutory and administrative financial targets, most importantly achieving the key target of break-even. As reported in the annual accounts and previously to the Board, the surplus position was supported by a number of factors:

- planned financial support of £3.5m from the Strategic Health Authority;
- an extensive cost improvement programme during the year;
- a favourable adjustment to the Income and Expenditure account following the District Valuers revaluation of the Trust’s assets in April 2005; and
- receipt of income towards the end of the financial year.
3 Financial aspects of corporate governance (continued)

Future financial forecasts
We have considered the following four key components that will contribute to your financial position in 2005-06 and beyond.

<table>
<thead>
<tr>
<th>Component</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income and spending</td>
<td>The draft finance plan for 2005-06, as presented to the board, budgets a break-even position for the year. The achievement of this plan is subject to a number of factors, including achievement of an extensive cost improvement programme. The Trust also requested £13m brokerage from the Strategic Health Authority however only £10.35m was approved. A further £1.65m of non repayable support has been agreed with the PCTs. An additional £1m is still needed and although this has not yet been agreed with the PCTs the financial plan assumes the full £13m support will be received.</td>
</tr>
<tr>
<td>Identified cost-improvement plans</td>
<td>The forecast break-even position is reliant on a number of factors, including a cost saving of 2.78% across the Trust. The Divisions have been allocated specific cost improvement targets to ensure that the Trust achieves the target savings for the year.</td>
</tr>
<tr>
<td>Managing year-on-year financial position</td>
<td>The Trust reported an underlying deficit of £7.5m at the beginning of the year. The significant underlying deficit emphasises the importance of managing the in-year budget so that this does not increase further.</td>
</tr>
<tr>
<td>Capital and cash management</td>
<td>Cash flow forecasts are prepared on a monthly basis and The Director of Finance has started to report on the cash position of the Trust in his reports to the Finance Committee. The latest reports indicate cash balances are around £4m ahead of forecast levels. The Trust has an ambitious and wide ranging capital programme with expenditure forecast to be around £27m. The Trust expects to offer £1m cash brokerage to the SHA.</td>
</tr>
</tbody>
</table>

The financial position up to July 2005
We have reviewed the finance report presented at the September Board for the period up to 31 July 2005. As at 31 July 2005 the Trust was reporting a deficit of £267,000, and a break-even position was forecast for the year. The following key risks need to be addressed by the Trust in order to improve the likelihood of achieving the forecast break-even position:

- achieve the planned activity levels to ensure that additional income will be received, there is a key assumption of increased activity in the plan;
- obtain the local PCTs agreement to provide additional £1m of financial support, this will be in addition to the £1.65m that has already been agreed; and
- achievement of cost savings within the Divisions and also implementation of the Divisional action plans.

We will continue to monitor the Trust’s financial position and the changing risk profile.
3 Financial aspects of corporate governance (continued)

Systems of internal financial controls
To assess the systems of internal financial control, we have considered three aspects of your governance framework.

<table>
<thead>
<tr>
<th>Statement of internal control</th>
<th>Review of internal audit</th>
<th>Assessment of financial control environment</th>
</tr>
</thead>
</table>

All Trusts were required to produce a Statement on Internal Control (SIC) for inclusion in the 2004/05 accounts. The SIC includes commentary on risk management and review processes, gaps in assurance and significant control issues for the year under review. The SIC was signed by the Chief Executive and approved by the Board in advance of its inclusion in the accounts.

The Head of Internal Audit’s opinion on the effectiveness of the system of internal control also provided further evidence and basis for the Trust to produce the SIC.

The Trust has recently agreed an enhanced format for the BAF and a framework for monitoring progress. The updated BAF seeks to cover the requirements of the Healthcare Commission Core Standards. A key challenge for the Trust is to ensure that risk management becomes fully embedded throughout the organisation.

The Trust’s Internal Audit function, provided by MSTEC, was reviewed by another audit provider earlier in the year. The review concluded that MSTEC did reach the organisational and operational standards set for NHS internal auditors, except for the standard on Quality Assurance. MSTEC had only just introduced new QA procedures at the time of the review as a result the arrangements were not reviewed.

We reported in our interim report that timing differences meant we were unable to place full reliance on the work of internal audit.

We will de-brief with Internal Audit to maximise the reliance we can place on their work and streamline the managed audit approach to minimise the burden on your staff.

We reviewed two aspects of the financial control systems as part of our interim audit.

- Investing in the control framework
- Responding to the business environment

Generally robust arrangements exist to respond to external change and ensure control is maintained throughout a period of significant change in the NHS.
3 Financial aspects of corporate governance (continued)

The legality of financial transactions
Under the Code of Audit Practice, we must review the arrangements you have in place to identify whether:

- transactions you are involved in that might have a significant financial consequence;
- contracts that you enter into are legally sound.

We reviewed the board minutes, comments received from the directors and the Trust arrangements to check the legality of the transactions it enters into. We have confirmed that the Trust’s legal arrangements rely on certain directors and senior managers. These arrangements appear reasonable given the responsibilities of these officers and no matters that require investigation have been brought to our attention.

Standards of financial conduct and preventing and detecting fraud and corruption
As auditors, we are responsible for assessing the arrangements that management have put in place to prevent and detect fraud and corruption. Our role allows us to consider the role of management throughout the year from two perspectives – proactive and reactive arrangements. Our review of the overall arrangements in place found that these were satisfactory and we reported our assessment of these arrangements in our Interim Report.

The Trust was subject to a review by the NHS Counter Fraud Service in May 2005 as part of its Quality Assurance Programme. The final report was issued in August 2005 and a number of “good practice” recommendations were made. These related mainly to updating policies and procedures to reflect changes in the Counter Fraud Service Manual. We will follow up the findings of this review during our audit planning visit for 2005-06.

Red Risk reviews
Our audit plan highlighted two full reviews that we would undertake to support our audit work at the Trust and two watching briefs. The results of our work to date are detailed below. The full reviews related to “red risk” themes identified by the Audit Commission as critical to NHS bodies, Payment By Results (new funding flows) and Core Financial Management. Terms of reference were agreed with the Director of Finance in May, however the work was initially postponed until later in the year due to the Trust undergoing changes within these areas, and it has now allowed us to incorporate our Auditors Local Evaluation requirements into these reviews. The Audit Commission has also issued revised Audit Guides for these areas.

Payment By Results (new funding flows)
This review focused on the Trust’s readiness for PBR and the arrangements in place in four key areas: organisational awareness; preparation and implementation; partnerships and capacity. The Trust completed the Self Assessment which identified the following as issues for the Trust:

- The Trust has worked in conjunction with the local PCTs to identify and cost all services provided by the Trust in order to aid the movement from local prices to national tariff; and
- The Trust recognised that it did not have sufficient arrangements in place to ensure that where needed it could reduce the cost of activities to tariff. This is likely to be a key risk area for the Trust.
3 Financial aspects of corporate governance (continued)

To date our work has involved the completion of the organisation awareness questionnaire. Initial results show that although there is awareness of PBR at top-level within the Trust, staff lower down feel that they are not kept informed of the implementation and impact of PBR. The Trust has undertaken a programme of training and awareness sessions across the Divisions, however due to the size of the Trust there is the inherent risk that not all relevant staff are able to attend these sessions. Following the results of this questionnaire, the Trust plans to address the lack of awareness by ensuring that PBR is an agenda item at future budget-holder meetings, discussions will be held with the Divisional Accountants about arranging training for budget-holders and the Finance team are currently working on drafting a “guide to PBR” which is planned for issue by the end of the year.

Our work in this area continues and we shall report our findings towards the end of the year.

Core Financial Management

At the time we agreed our terms of reference, Internal Audit had undertaken a review of Budgetary Control and carried out a budget-holder survey which was identical to that suggested by the Audit Commission. Therefore it was felt that we could use the results of this survey and undertake more detailed work on the Trust’s plans to address its underlying deficit and in-year pressures. The work on Core Financial Management is ongoing and we plan to report formally towards the end of this year, however key messages to date are:

- the Trust has traditionally had to focus on non-recurrent measures to address its in-year financial position, however going forward the Trust needs to identify non-recurrent measures so that it is not vulnerable when the SHA tightens up the availability of financial support or when the local PCTs are unable to provide non-repayable support. This would also send out a message to the PCTs that the Trust is actively addressing its cost pressures and not relying on non-recurrent factors.
- the financial plan for the year includes a number of key risks and assumptions that are critical to the achievement of financial balance at the year end. 2005-06 will present significant challenges for the Trust as it plans to identify and achieve £10m cost savings, increase activity levels to support increased income assumptions and assess the financial impact of the implementation of PBR and Agenda for Change.

We plan to undertake further detailed work and report formally to Trust management towards the end of this year.

Workforce Contracts

Agenda for Change

The Trust recognised a provision in the 2004/05 financial statements to reflect the back-dated pay from October 2004 to March 2005 that would arise when staff would be assimilated on to the new pay scales under the Agenda for Change initiative. The provision was based on information the Trust had at the time and the actual cost will not be known until all relevant staff have been assimilated on to the new pay scales. As at 31 August 2005 the Trust was reporting that 60% of staff had been assimilated and action was being taken to ensure that the deadline of 30 September would be achieved to assimilate all staff.

The Trust needs to continue to monitor the actual costs arising following assimilation against the provision that was included in the accounts. This will enable the Trust to identify any funding gaps in a timely manner so that achievement of the statutory target to break-even is not threatened further. Once assimilated, the Trust also needs to review the implementation of the Agenda for Change requirements in order to assess the qualitative impact of the initiative. We plan to review the Trust’s work on “benefit realisation” as part of our 2005/06 audit work.
3 Financial aspects of corporate governance (continued)

Consultants Contract
Work during our final accounts audit visit identified that the provision recorded in the 2003/04 financial statements relating to the Consultants Contract was consistent with the actual costs incurred to date. However, some provision remained in the 2004/05 financial statements and related to a number of Consultants who were appealing and wanting to negotiate their contracts further. There is a risk that additional costs are incurred as a result of these appeals. We will continue to monitor the progress made in this area.

European Work Time Directive
Discussions during our final accounts audit identified that one rota at the Rochdale site was reported as non-compliant with the EWTD requirements. The Trust was taking action at the time to address this non-compliance. We will follow this up as part of our 2005/06 audit work.

Partnerships
As more efficient and effective ways of working are introduced, partnership arrangements are becoming more prevalent. The Trust has a number of “partnerships” and arrangements with local providers within the health economy and the implementation of payment by results will require more closer working in order to ensure that activity and funding issues are acted upon promptly. Due to the size of the Trust and the location of the sites, there are logistical problems in ensuring that key decision makers attend all the relevant meetings that are held at a local site level and also at a trust level. The Trust needs to review the way in which staff are empowered to make contributions to the progress and work completed by such partnerships, and thus preventing progress from being hindered by the logistical problems mentioned.

Business planning
The Trust has produced a Business Plan for the financial year April 2005 to March 2006. setting out its key priorities and actions for the year. The Director responsible for co-ordinating the business planning process has revisited the approach taken in 2005/06 and accepts that the process can be improved by providing more of a clearer steer from the centre to Divisions on how they should be preparing their element of the business plan. In developing the business planning process, the Trust should consider how it can better measure the achievement of the business planning objectives.

Performance improvement observations from our work are set out in Appendix A.
4 Audit of the accounts

We completed the audit work on the accounts and issued an unqualified audit opinion on 15 July 2005. We also issued an unqualified opinion for the Charitable Fund accounts.

An important measure of proper financial control and accountability is the audited accounts being signed off and published by the deadline. We issued our audit opinion within the Department of Health’s deadline. We have summarised below the three key elements of the audit process that the Trust staff deal with:

<table>
<thead>
<tr>
<th>Element</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completeness of draft accounts</td>
<td>We received a complete set of draft accounts on 13 May 2005. This was within the Department’s deadline and this reflects well on the professionalism of the finance staff and their commitment to maintaining robust high-level controls over financial systems.</td>
</tr>
<tr>
<td>Quality of supporting working papers</td>
<td>As part of our interim audit, we issued a ‘Prepared by Client’ (PBC) request that set out a number of documents we would need for our final accounts audit. This had been prepared jointly with the Finance staff in order to aid the process of producing working papers. The documentation provided was to a high standard. The need for quality working papers will take on greater significance for 2005/06 as our assessment of the PCTs working papers will form part of the Auditors Local Evaluation (ALE).</td>
</tr>
<tr>
<td>Response to audit queries</td>
<td>The Trust staff dealt with our audit queries quickly and efficiently. We will continue to liaise with Finance staff to identify efficient and effective working practices so that disruption to other work is kept to a minimum.</td>
</tr>
</tbody>
</table>

The following are other key issues from the Trust accounts process that we want to draw to your attention.

- **Processed audit adjustment**
  - A summary of non-material audit adjustments was agreed with the Trust.
  - We also identified a number of audit differences which did not impact on the financial position. These related to the disclosure of balances or notes within the financial statements.
  - The key issues this year were the agreement of capitalisation of salary costs and the recognition of income received late in year. These issues were either resolved prior to signing the accounts or included within the SAS 610 letter made to the Audit Committee.

- **Confirmations and formal statements**
  - Along with your formal statement to us, we have to make a formal report to the Audit Committee to confirm whether we as a firm have met with the Audit Commission’s requirements for independence. We confirmed this at your meeting on 13 July 2005.
  - Also, we reported any proposed audit adjustments that were considered significant but, following discussion with management, would not be amended in the accounts.

- **Debriefing process**
  - We are always trying to improve the way we work with you and plan to schedule a full debriefing process with the Finance section. The importance of such a session is emphasised by the challenging future deadline for accounts submission that are likely to be set by the Department of Health.
  - We have also discussed potential improvements to the content of the annual report.
Appendix A: Summary of performance improvements

This appendix summarises the performance improvements that we have identified while preparing this annual audit letter. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take. We will follow up our performance improvement observations as part of our audit in 2005-06.

Priority rating for performance improvement observations raised

**High Priority**: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

**Medium Priority**: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

**Low Priority**: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

<table>
<thead>
<tr>
<th>Number</th>
<th>Risk</th>
<th>Issue</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>●</td>
<td><strong>In response to the vacancies at Director and senior management level the Board should continue to monitor and evaluate the capacity of the Executive team, ensuring that day-to-day activities do not suffer and the current management capacity is not over-stretched.</strong></td>
<td>The Board continues to monitor and evaluate the capacity of the Executive Team, advertisements have been placed for both the Medical Director and Human Resources Director. An appointment to the post of Divisional Director of Surgery has recently been made.</td>
<td>C Appleby Timescale: 31 March 2006</td>
</tr>
</tbody>
</table>
Appendix A: Summary of performance improvements (continued)

<table>
<thead>
<tr>
<th>Number</th>
<th>Risk</th>
<th>Issue</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
<td>Monitoring overall performance</td>
<td>There were two areas for which the Trust through its assessment of its performance against the standards within the “Standards for Better Health” Framework declared as having insufficient assurance.</td>
<td>K James</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Safety Domain: Standard C3</td>
<td>Healthcare organisations protect patients by following National Institute for Clinical Excellence (NICE) interventional procedures guidance.</td>
<td>Due date: 31 March 2006</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Safety Domain: Standard C5a</td>
<td>Healthcare organisations ensure that they conform to National Institute for Clinical Excellence (NICE) technology appraisals and where it is available, take into account nationally agreed guidance when planning and delivering treatment and care.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Currently the NICE guidance is received and distributed throughout the organisation by the Associate Medical Directors although, the Trust needs to enhance the mechanism for monitoring the implementation and auditing of outcome/effectiveness guidance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Action</td>
<td>The process for dissemination, implementation and audit of outcomes will be established taking into consideration the recommendations contained in the Audit Commission report “Managing the Financial Implications of NICE Guidance”. A retrospective audit will be undertaken led by Ruth Jameson (Acting Medical Director) with a deadline of 31 January 2006.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Trust’s performance and annual audit programme will also take into consideration “Standards for Better Health”, which will facilitate ongoing assessment of the Trust’s performance against those standards for which qualitative information is required to facilitate assessment of performance.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix A: Summary of performance improvements (continued)

<table>
<thead>
<tr>
<th>Number</th>
<th>Risk</th>
<th>Issue</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>Maintaining financial balance</strong></td>
<td>Divisional Accountants identify financial risks as part of the budget setting process and highlight in year issues during meetings with the Director of Finance and Chief Executive. Each year recurrent savings are identified in excess of 2.0% (in 2006/06 this was 2.78%), plans to go beyond this and reduce the underlying recurrent deficit are linked to reconfiguration of site/service plans but any additional recurrent opportunities are taken as and when identified. The Trust does not have a formal recovery plan as it has never recorded a deficit but is working to restore itself to recurrent balance, this is linked to the clinical reconfiguration strategy and to ensure where possible, that the £7.5m underlying deficit does not increase significantly. The Trust continues to monitor and report regular performance to the Finance Committee and the Board.</td>
<td>R Chadwick</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Accident &amp; Emergency policy and guidelines</strong></td>
<td>The policy has been completed. Training sessions have been arranged and will be completed by the end of November 2006.</td>
<td>S Farey</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>The Trust referred to an A&amp;E “operational policy” that we were unable to view. Discussions with Trust staff identified that this policy is currently under review. The Trust should ensure that the revised policy is communicated across the Trust, thus ensuring a consistent approach is taken on A&amp;E activity. A&amp;E guidelines should also be issued to provide practical guidance on the implementation of the Trust’s A&amp;E policy. The Trust should ensure that these are consistent with Department of Health guidelines and requirements and disseminated across the Trust.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>The Trust should continue with actions already in place to work towards maintaining financial balance. In particular:</td>
<td>Each year recurrent savings are identified in excess of 2.0% (in 2006/06 this was 2.78%), plans to go beyond this and reduce the underlying recurrent deficit are linked to reconfiguration of site/service plans but any additional recurrent opportunities are taken as and when identified. The Trust does not have a formal recovery plan as it has never recorded a deficit but is working to restore itself to recurrent balance, this is linked to the clinical reconfiguration strategy and to ensure where possible, that the £7.5m underlying deficit does not increase significantly. The Trust continues to monitor and report regular performance to the Finance Committee and the Board.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix A: Summary of performance improvements (continued)

<table>
<thead>
<tr>
<th>Number</th>
<th>Risk</th>
<th>Issue</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td></td>
<td><strong>Day Surgery policy &amp; guidelines</strong></td>
<td>A “Day Services Project” has been established at all four sites to consider the recommendations of the KPMG Data Quality Review. Part of the remit of this group is to agree a common policy for the Trust; this policy will be completed by the end of November 2005.</td>
<td>John Wilkes</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td><strong>Acute Hospitals Portfolio</strong></td>
<td>In line with the agreed procedure this report is currently in the process of being followed up by KPMG.</td>
<td>Divisional Directors</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td><strong>Moving forward with the IT agenda</strong></td>
<td>The Trust is working within the North East Sector to deliver the Connecting for Health project and has established an Acute Project Board to oversee the work. These points will be considered by the Project Board.</td>
<td>R Chadwick</td>
</tr>
</tbody>
</table>

- The Trust does not currently have a trust-wide policy relating to Day Surgery activity. The Day Surgery Unit at Rochdale uses guidelines issued by the British Association of Day Surgery, however these have not been ratified or adopted at Trust level. The Trust should introduce specific, trust-wide, guidelines for Day Surgery activity. The Trust should introduce a Day Surgery policy, setting out the Department of Health definition of day case and the Trust approach to recording such activity.

- The Trust needs to develop action plans for Accident and Emergency, Day Surgery and Ward Staffing which addresses all the issues identified in the standard reports and progress against this plan should be monitored regularly.

- We recognise that the Trust has experienced delays in the implementation of Connecting for Health many of which are outside its control. These delays have exposed the Trust to the risks of failure to meet project objectives and increased costs. To minimise these risks, the Trust should consider:
  - continuing to clearly communicate progress of the national programme and the local benefits to all staff groups, including independent contractors;
  - conducting a post project review following implementation of the N3 connections to learn lessons for the future implementations;
  - ensuring that there continues to be a flexible project plan designed to deliver remaining elements, with key bottlenecks and milestones indicated to enable timely adaptation when the existing delays are resolved.
Appendix A: Summary of performance improvements (continued)

<table>
<thead>
<tr>
<th>Number</th>
<th>Risk</th>
<th>Issue</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td></td>
<td><strong>E-booking funding</strong></td>
<td>The PCTs have been asked to consider the funding for the management and training costs associated with Choose &amp; Book, although as this has not been prioritised as an area for funding, the Trust is pursuing further discussions with its main Primary Care Trusts. This issue is expected to be resolved by March 2006.</td>
<td>K James March 2006</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td><strong>Structural reorganisation</strong></td>
<td>An action plan arising out of the Alberti report is to be prepared during December 2005. Progress against the action plan will be considered after six months. Some actions will provide for a lead time beyond the six month period. Recommendations arising out of the Structural Reorganisation reports have previously been implemented/actioned prior to the issuing of the report.</td>
<td>C Appleby</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td><strong>Governance and Statement of internal control</strong></td>
<td>The governance structure has now been revised and both the Governance and Risk Committee and the Governance Performance Board are meeting on a regular basis. The Trust is currently reviewing an enhancement to the Ulysses computer system which will facilitate the incorporation of the Standards for Better Health within the Trust’s business objectives and thereby into the Assurance Framework which will be reviewed on a regular basis by the Governance and Risk Committee.</td>
<td>Medical Director</td>
</tr>
</tbody>
</table>
# Appendix A: Summary of performance improvements (continued)

<table>
<thead>
<tr>
<th>Number</th>
<th>Risk</th>
<th>Issue</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
</table>
|        |      | Stroke services Now that the Stroke Steering Group has been established, the Trust should ensure that the key recommendations arising from this review are actioned on a timely basis. | The Stroke Steering Group, with representation from each of the site sub-groups has been established and the following progress has been achieved to date:  
- Meetings held with stroke consultants and preferred option agreed.  
- A data set for monitoring the delivery of services has been agreed.  
- Work-streams have been agreed for each sub-group.  
- Leads are to coordinate work locally and report back to the Steering Group in January 2006.  
- A work-stream has been established to devise a reporting protocol. | S Farey |
| 11     |      |       |                      |                      |
|        |      | Agenda for Change As at 31 August 2005, the Trust reported that 60% of staff had been assimilated on to the new pay scales. The Trust is working towards achieving the target of 100% assimilation by September 2005. | The Trust is monitoring the cost of Agenda for Change and will include any ongoing pressures within the financial plan for 2006/07. | R Chadwick |
| 12     |      |       |                      |                      |
Appendix A: Summary of performance improvements *(continued)*

<table>
<thead>
<tr>
<th>Number</th>
<th>Risk</th>
<th>Issue</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td></td>
<td><strong>Partnerships</strong></td>
<td>The Trust is discussing staff encouragement with the external reference group which is overseeing the engagement phase of the Health Future’s programme and this matter will be discussed at the JNCC meeting. The expected date for completion is December 2005.</td>
<td>T Wilders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Trust has a number of partnership and other working arrangements within the local health economy. The Health Futures Project and the implementation of PBR will require more partnership working. Due to the size of the Trust and the location of the sites there can be logistical problems in ensuring key decision makers attend all such meetings where decisions are made. The Trust should review the way in which staff at varying levels are empowered to make decisions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td></td>
<td><strong>Business planning</strong></td>
<td>Guidance will be issued to the divisions on the business planning process and consideration will be given as to how the Trust can best measure the achievement of its business objectives. It is expected that this will specifically focus around the Standards for Better Health as these standards will form a substantial part of the Trust’s corporate objectives. The expected date for completion is January 2006.</td>
<td>T Wilders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Trust should issue guidance to Divisions about how the business planning process.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>In developing the business planning process, the Trust should consider how it can better measure the achievement of the business planning objectives.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: Follow-up of last year’s performance improvements

We have followed up the performance improvements we recommended in 2003-04. We noted a total of 14 performance improvements. The table below provides an overall summary of progress.

<table>
<thead>
<tr>
<th>Report</th>
<th>Number of performance improvements that were:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>included in our original report</td>
<td>put into effect or replaced</td>
</tr>
<tr>
<td>Annual audit letter 2003-04</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Interim report 2003-04</td>
<td>11</td>
<td>6</td>
</tr>
</tbody>
</table>

Those performance improvement observations that had been implemented in full or superseded related to:

- Stock Count (quarantining)
- Obsolete/damaged stock
- General Ledger Maintenance
- Internal Financial Control – training needs
- Future Accounts Timetable
- Stock valuation
- Recruitment practices
- Stock sheets
- Statement of Internal Control – position statement

Those performance improvements that had not been fully put into effect have been reported in our Interim Report 2004-05, we will follow up progress made during out 2005-06 audit. None of these were high priority recommendations.
Appendix C: Summary of the audit

This section summarises our overall arrangements for delivering of your external audit in 2004-05. To make sure that there is openness between us and the Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2004-05 agreed external audit fee.

External audit fee for 2004-05

The analysis above shows that our audit fee has been included in the totals you have already approved and that we have not performed any other non-audit work. The fee for the Data Quality work was agreed as £25,000 however the review only focused on one site (Rochdale), therefore the balance of the fee £10,000 is being used to fund the training for Non-Executive Directors.

Please read the findings of our annual audit letter in the context of our findings in our other audit work presented to you during 2004-05. We have not reviewed our findings to check your progress as part of the annual audit letter, but all of our reports include action plans that we have agreed with management and that contain specific timescales in which we will follow up the performance improvements.
Appendix D: Past financial performance

The Trust’s performance against the break-even duty shows that the Trust has continued to achieve this target. The capital cost absorption duty (CCAD) (which was revised from 6.5% to 3.5% in 2004-05) has also been achieved for 2004-05. Performance against the public sector payment policy has improved and the Trust achieved the target of paying 95% of invoices within 30 days during 2004-05, this target was not achieved in 2003-04.

The Trust also achieved its capital resource limit (CRL) and external financing limit (EFL) for 2004-05, as it did in previous years.

<table>
<thead>
<tr>
<th>Year</th>
<th>CRL</th>
<th>EFL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2003-04</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2004-05</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: annual accounts 2002-03, 2003-04 and 2004-05
## Appendix E: Our responsibilities under the Audit Commission’s Code of Audit Practice

<table>
<thead>
<tr>
<th>The model of a public audit</th>
<th>Our main responsibilities</th>
<th>Our work in 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance management</strong></td>
<td>Use of resources</td>
<td>We completed two specific mandated reviews relating to the Acute Hospital Portfolio and arrangements for Data Quality.</td>
</tr>
<tr>
<td></td>
<td>Performance information</td>
<td>Our work on structural reorganisation and the stroke services within the local health economy has also been reported in this report.</td>
</tr>
<tr>
<td><strong>Financial aspects of corporate governance</strong></td>
<td>Financial position</td>
<td>Our annual overview of the performance management arrangements was completed as part of our interim audit and our findings have been reported in this report.</td>
</tr>
<tr>
<td></td>
<td>Systems of internal financial control</td>
<td>We have undertaken watching briefs on the Trust’s arrangements for Information Management and Governance and the progress made against the national Connecting for Better Health programme.</td>
</tr>
<tr>
<td></td>
<td>Standards of financial conduct and preventing and detecting fraud and corruption</td>
<td>We have also undertaken a review of the effectiveness of the Trust’s performance management systems.</td>
</tr>
<tr>
<td></td>
<td>The legality of financial transactions</td>
<td></td>
</tr>
<tr>
<td><strong>Audit of the accounts</strong></td>
<td><strong>Opinion audit</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Regularity</strong></td>
<td></td>
</tr>
</tbody>
</table>

We have fulfilled our responsibilities under the Code of Audit Practice through the completion of the audit of the Trust and Charitable Fund accounts.

Our audit work focused on:

- Reviewing the forecasts and outturn against statutory financial targets, specifically focusing on the Trust’s achievement of financial balance;
- Assessing financial controls throughout the accounting period and action taken to address the risks to achieving financial balance;
- Ensuring that LCFS and fraud work was appropriately managed and delivered.
- Full reviews on Core Financial Management and the implementation of Payment By Results.
- Watching briefs of partnership arrangements within the Trust.

Our audit work focused on and was dominated by ensuring that robust systems were in place to deliver the basic accounts balances and year end testing of specific accounts balances and assertions.