

UHL TRUST BOARDS 7 June 2012
PAPER A (APPENDIX 2)



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University Hospitals of Leicester NHS Trust

I confirm that this is the final version of our ISA 260 Audit Memorandum relating to our audit of the 2011/12 financial statements for University Hospitals of Leicester NHS Trust.

This document was discussed and approved by the Trust's Audit Committee on 29 May 2012.

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29 May 2012

ISA260 Audit Highlights Memorandum
2011/12

28 May 2012

Appendix A: Key issues and recommendations



We have identified a number of areas where existing controls can be further strengthened to improve the control environment.

#	Risk	Issue, Impact and Recommendation	Management Response/ Responsible Officer/Due Date
1	1	<p>Strengthening financial resilience</p> <p>In the 2011/12 financial year, the Trust under-achieved against its Cost Improvement Plans by £13.1m, however additional income received in the year and further stabilisation measures resulted in a year end surplus of £88k.</p> <p>The Trust's Annual Plan for 2012/13 forecasts a breakeven position, against a year on year increase of 0.4% in both income and expenditure. This includes CIPs savings of £32m (4.4% of planned turnover), of which £19m are pay related.</p> <p>Key to pay CIPs, transformational development, and expenditure control, is the embedding of detailed, long term, workforce management plans. The Trust should use its CBU operational plans submitted as part of the annual business planning process to ensure that on a continuous basis its workforce models are reviewed and refined to:</p> <ul style="list-style-type: none"> • Identify planning opportunities for further efficiencies; • Develop a tool to incorporate alternative scenarios for a range of possible conditions; and • Provide a monitoring tool against which progress can be assessed. <p>This will enable the Trust to maintain tight control over this critical area, whilst ensuring activity and capacity levels are managed effectively and safely.</p>	<p>The Trust has recently established a Transformational Support Office (TSO) which will embed and monitor transformational projects within the Trust.</p> <p>The TSO has already reviewed, and risk assessed, the Trust's 2012/13 CIP plans of which some are transformational. The delivery of its CIP plans is key to the Trust delivering its 2012/13 Plan. The methodology and tracker established in the TSO will be used by the Divisions and the Executive Committee to continuously monitor performance and identify opportunities for further efficiencies. The TSO will continue to support the Transformation Director and the Trust in developing major transformational schemes.</p> <p>The Trust is developing long term workforce plans in line with its FT application. A key element of the Trust's ongoing planning work is to align capacity and workforce planning with activity demand.</p> <p>The Trust is planning to produce its Integrated Business Plan and Long Term Financial Model by the end of October 2012 and these will provide a framework for linking CIPs, transformation, capacity and workforce planning over the medium term.</p>

Key:

- 1 High Risk
- 2 Medium Risk
- 3 Low Risk

Appendix A: Key issues and recommendations (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/ Responsible Officer/Due Date
2		<p>Deferred income</p> <p>The Trust undertook a review of its deferred income balances during the current financial year, the result of which was a release of £4.2m income. There remains a significant balance of deferred income (£7.7m), and the Trust intends to conduct a further review of R&D deferrals in 2012/13.</p> <p>The Trust should ensure this review takes place as soon as possible, and that appropriate processes and controls are put in place to ensure the correct treatment of all current and future balances. All deferred income balances should be supported by sufficient and appropriate audit evidence.</p> <p>This will enable the Trust to provide detailed accounts upon request, and improved local financial management.</p>	<p>The Trust has an R&D project plan for 2012/13 which will ensure the correct treatment of all current and future deferred income balances.</p> <p>This plan also includes the preparation of expenditure plans and budgets for income required across future financial years, and agreement of these with lead researchers.</p> <p>The Trust will ensure that all deferred income balances are supported by sufficient and appropriate audit evidence.</p> <p>Responsible Officer: Simon Sheppard – Assistant Director of Finance Due Date: 30 September 2012</p>
3		<p>Segmental reporting</p> <p>IFRS 8 requires disclosure of significant operating segments. Although the standard uses revenue as the principal measure for identification of significant operating segments, the Department of Health NHS Manual for Accounts states that operating segments can be reported by reference to operating expenses of the Trust.</p> <p>The Trust has reported one segment in its 2011/12 accounts. The Trust now has established procedures in place for internal reporting at Divisional level. As we have noted in previous years, there is a risk that the reporting of one segment will not be considered compliant with NHS guidance in future years. The implementation of segmental reporting also follows best practice in the FT sector.</p> <p>The Trust should continue to review its approach to segmental reporting during 2012/13, ensuring the approach is reasonable and takes into consideration all DH guidance.</p>	<p>The Trust operates within the single healthcare sector and therefore has not introduced segmental reporting in 2011/12. We will continue to review national reporting requirements, particularly as we progress our FT application.</p> <p>Responsible Officer: Jonathan Shuter – Deputy Director of Finance Due Date: Ongoing</p>

Appendix A: Key issues and recommendations (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/ Responsible Officer/Due Date
4	<p>3</p> <p>Year-end accounts procedures</p> <p>We identified the following issues that the Trust needs to include in its future year programme of year-end procedures in order to avoid delay in submitting its accounts or potential misstatement:</p>	<p>1) Stock methodology – The Trust has included a number of additional areas of stock for the first time this year, for example ward stocks. Through our testing, we identified that the Trust double-counted one stock balance. Whilst clearly trivial and not resulting in an adjustment, the Trust needs to establish a methodology for calculating stock from all areas that ensures accurate balances are made and supported by sufficient and appropriate audit evidence.</p> <p>2) Whole of Government Accounts (WGA) - For a second year the Trust has participated in the Whole of Government accounts exercises which requires the disclosure of all transactions and balances with government bodies outside of the NHS.</p> <p>Through our review, we identified a number of balances which the Trust had excluded. This was due to the organisations in question not being identified on the Trust's debtor / creditor system as participants in the WGA exercise, for example the transactions with government bodies in Scotland, Wales and Northern Ireland.</p> <p>The Trust should review its process for identifying such transactions and balances, including when new codes are established.</p> <p>3) Negative debtor and creditor balances - As of 31 March 2012, the Trust's ledger recorded negative creditor balances (which are in fact debtors) and negative debtor balances (which are in fact creditors).</p> <p>Whilst a proportion of these are correctly accounted for and shown gross in the financial statements, the remaining balances are shown as net values. The Trust should ensure the remaining balances are reviewed, and match all credit notes and payments made / received in a timely manner. Where appropriate, negative balances should be accounted for on a gross basis.</p>	<p>1) The various elements of stock will be brought together under a single methodology. Appropriate controls will be put in place and communicated to the responsible individuals. These processes will be reinforced within revised internal guidance for 2012/2013.</p> <p>Responsible Officer: Froo Coles – Assistant Director of Finance Due Date: 31 October 2012</p> <p>2) We will review all customer and supplier accounts on the accounts payable and accounts receivable ledgers with reference to the new WGA guidance. Where necessary, we will improve the links between customer and supplier accounts and the WGA categories in the financial statements. This will be tested as part of the month 9 FIMS accounting process, which will be completed in January and normally includes an agreement of balances exercise.</p> <p>Responsible Officer: Froo Coles – Assistant Director of Finance Due Date: 31 March 2013</p> <p>3) We adjusted all negative NHS debtor and creditor balances as part of the NHS agreement of balances exercise, and we review our ledger balances at the year end to identify all such balances.</p> <p>We consider that the items identified during the audit relate to individual line items within the debtor and creditor ledgers and do not necessarily reflect the total payable or receivable balance for that organisation. When considered in total the overall balance for the organisation may not be negative.</p> <p>We will re-check the non-NHS debtor and creditor ledger codes as at the 31 March 2012 to determine whether there were any balances which should have been adjusted. Should any issues be identified we will incorporate any required changes into our processes for future accounting periods.</p> <p>Responsible Officer: Froo Coles – Assistant Director of Finance Due Date: 30 June 2012</p>

Appendix A: Key issues and recommendations (cont.)

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5	③	<p>Aged debtors and creditor balances</p> <p>As of 31 March 2012, the Trust had £574k of debtors and £306k of creditors aged over one year and our analyses indicates that many of these balances are aged between two and five years old. As a result, the likelihood of the Trust paying these creditors or collecting its debts diminish where it is not already doing so.</p> <p>The Trust should therefore undertake a thorough review of its aged debtor and creditor balances, and write-off all those for which there is reasonable evidence that no income will be forthcoming (debtors), or that the Trust will be required to pay the outstanding balance (creditors).</p>	<p>Aged debt reports are reviewed within the income team on a monthly basis and there are procedures in place for following up all debts, including the use of external debt recovery agencies. Aged debts are appropriately provided for within the Trust's bad debt provision and debts are written off only when all methods of collection are exhausted, and this is considered monthly.</p> <p>We will undertake a regular review of all aged creditor balances over one year old and determine which ones are to be corrected or paid.</p> <p>Responsible Officer: Froo Coles – Assistant Director of Finance Due Date: 30 September 2012</p>
6	③	<p>Purchase ledger payroll payments</p> <p>Our review of the Trust's payroll costs in 2011/12 confirmed that the Trust processes the vast majority of payroll expenditure through the payroll system. However, we also identified that the Trust pays staff via adhoc claims authorised by line management (using payment request vouchers), for example honoriums and a variety of out-of-pocket expenses. These averaged £102k per month.</p> <p>Using the one system for employee reimbursement will allow the Trust to focus its resources on the effective design and operation of its payroll controls.</p>	<p>We have already reviewed, and have started to reduce, the number of out-of-pocket expense claims being paid through accounts payable.</p> <p>A review will be undertaken of the pay related expenditure which is processed through accounts payable to determine the expenditure streams which should be processed through payroll. We will introduce controls to ensure that only allowable pay related expenditure is processed through accounts payable.</p> <p>Responsible Officer: Froo Coles – Assistant Director of Finance Due Date: 31 October 2012</p>